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Illustrations of accounting for joint ventures : a survey of the application of various methods of accounting for joint ventures in the financial statements of venturers; Financial report survey, 21

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FINANCIAL REPORT SURVEY 21

Illustrations of Accounting for Joint Ventures

A survey of the application of various methods of accounting for joint ventures in the financial statements of venturers

By Hortense Goodman, CPA
and
Leonard Lorensen, CPA

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American Institute of Certified Public Accountants

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AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS

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PREFACE

This publication is the twenty-first in a series produced by the Institute's staff through use of the Institute's National Automated Accounting Research System (NAARS). Earlier publications in the series are listed on the inside cover of this publication.

The purpose of the series is to provide interested readers with examples of the application of technical pronouncements. It is believed that those who are confronted with problems in the application of pronouncements can benefit from seeing how others apply them in practice.

It is the intention to publish periodically similar compilations of information of current interest dealing with aspects of financial reporting.

The examples presented were selected from over eight thousand annual reports stored in the NAARS computer data base.

This compilation presents only a limited number of examples and is not intended to encompass all aspects of the application of the pronouncements covered in this survey. Individuals with special application problems not illustrated in the survey may arrange for special computer searches of the NAARS data banks by contacting the Institute.

The views expressed are solely those of the staff.

George Dick
Director, Technical Information Division

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SCOPE AND PURPOSE OF THE SURVEY

JOINT VENTURE ACCOUNTING

In recent years increasing use has been made of joint ventures as a form of business enterprise. A joint venture is commonly described as an entity that is owned, operated, and jointly controlled by a small group as a separate and specific business project organized for the mutual benefit of the ownership group. Each venturer commonly participates in overall management regardless of the percentage of ownership, and significant decisions commonly require the consent of each of the venturers so that no individual venturer has unilateral control. The joint venture may be organized as a corporation, a partnership with or without limited partners, or an undivided interest.

Joint ventures are a useful means of entering foreign markets, especially in some developing countries, often in partnership with a foreign national corporation or the host government itself. Joint ventures are also used to finance the development of needed facilities and products or supplies—for example, they are widely used in oil and gas exploration, construction and operation of manufacturing facilities, and development of nuclear and conventional power plants as well as in the construction and real estate industries.

Authoritative accounting pronouncements have given little attention to the problem of accounting for joint ventures. The first pronouncement that addressed the problem was AICPA Accounting Principles Board Opinion 18, "The Equity Method of Accounting for Investments in Common Stock," issued in March 1971, which requires investments in corporate joint ventures to be accounted for under the equity method. An AICPA Staff Interpretation of APB Opinion 18 issued in November 1971 concludes that the Opinion does not cover investments in partnerships and unincorporated joint ventures but that many of its provisions are appropriate in accounting for such investments. The interpretation also concludes that proportionate (pro rata) consolidation may be appropriate for unincorporated joint ventures in the form of undivided interests in industries in which that is established practice. However, the extent and the manner in which the Opinion applies is not clear from the interpretation and many questions are left unanswered.

Statement of Position 78-9, "Accounting for Investments in Real Estate Ventures," issued by the AICPA's accounting standards division in December 1978, recommends the equity method, as prescribed by APB Opinion 18, for noncontrolling investments in corporate joint ventures, general and limited partnerships, and undivided interests subject to joint control. Under the statement, minor investments in limited partnerships may be carried at cost and investments in undivided interests not subject to joint control may be reported on the pro-rata consolidation basis. The statement is limited to accounting for real estate ventures and is not intended to apply to investments in ventures not involved in real estate.

Excerpts from APB Opinion 18 and SOP 78-9 are reproduced in the appendix to this survey.

SOURCE OF ILLUSTRATIONS

Accounting for joint ventures requires considerable judgment because it is not clearly and completely covered in authoritative accounting pronouncements. An accountant who is confronted with problems in accounting for a joint venture can benefit from learning how others are accounting for them in practice. Accordingly, this publication presents excerpts from financial statements contained in recently published annual reports to shareholders of business enterprises that illustrate the application of various methods of joint venture accounting.

The AICPA National Automated Accounting Research System (NAARS) was used to compile the information. The examples presented were selected from the published annual reports to shareholders of more than 8,000 companies stored in the computer data base.

II

THE EQUITY METHOD

Accounting for a corporate joint venture under the equity method described in APB Opinion 18 involves initially recording the investment in the stock of the investee at cost, and adjusting the carrying amount of the investment to recognize the investor's share of the earnings or losses of the investee after the date of acquisition. The amount of the adjustment is included in the determination of net income by the investor, and such amount reflects adjustments similar to those made in preparing consolidated financial statements. Dividends received from the investee reduce the carrying amount of the investment. Noncorporate joint ventures are accounted for in a similar manner under the equity method.

A substantial majority of companies included in NAARS that have entered into joint ventures use the equity method to account for those ventures. Thirty-four examples are presented of accounting under the equity method for what appear to be joint ventures. The examples are classified according to the feature of the accounting that appears most interesting.

ACCOUNTING PRINCIPLES DIFFER BETWEEN VENTURER AND VENTURE

ALASKA INTERSTATE COMPANY
Notes to Financial Statements

(4) Investment in Roy M. Huffington, Inc.

In addition to its ownership of Virginia International Company, the Company has a further investment in the Indonesian oil and gas joint venture through its ownership of approximately 37% of Roy M. Huffington, Inc. Huffington is the operator for a joint venture which holds exploration rights under a production sharing contract in Indonesia. The Company accounts for its investment in Huffington under the equity method of accounting (full cost basis). The investment in Huffington was $13,091,000 and $10,086,000 at December 31, 1978 and 1977, respectively. Equity interest in earnings (after tax) of Huffington for 1978 and 1977 was $2,199,000 and $388,000, respectively.

Huffington uses a method of accounting which differs from the full cost method. The following is estimated unaudited financial data for Huffington on the full cost method:

	Year ended December 31,	
	1978	1977
Assets	$45,352,000	36,857,000
Liabilities	23,641,000	23,613,000
Stockholders' equity	21,711,000	13,244,000
Revenues	32,722,000	13,429,000
Net earnings	8,467,000	1,410,000

The investment in Huffington exceeds the underlying equity in the net assets of Huffington at December 31, 1978 by $5,036,000. This amount is being amortized on a unit-of-production basis over the life of proved oil and gas reserves of the venture. Amortization was $140,000 and $76,000 for 1978 and 1977, respectively.

There is no quoted market price for Huffington stock since the remainder of its shares are closely held.

DELTONA CORPORATION

Notes to Financial Statements

12. Joint Venture Information

Tierra Verde Company (the "Venture") was formed pursuant to a joint venture agreement (the "Agreement") dated November 22, 1976 between the Company's wholly-owned subsidiary Delverde, Inc. ("Delverde") and Madonna Corp. ("Madonna"). The purpose of the Venture is to complete development of the subdivision known as Tierra Verde, located in Pinellas County, Florida, into a luxury planned community, to sell homes and homesites in such community through the Company's domestic and foreign sales network, and to operate and maintain the communities facilities, a hotel and other amenities. The term of the Venture extends to December 31, 1990.

Under the terms of the Agreement, Delverde has management responsibility for completion of the community, for marketing the land and must advance to the Venture, as capital contributions, all funds, over and above those generated from Venture operations, necessary to carry out the Venture's objectives. Madonna's original capital contribution was land and improvements valued at $5,000,000. In 1978, pursuant to an amendment to the Agreement, the Venture assumed a $5,000,000 obligation collateralized by the land, and reduced Madonna's capital account by the same amount.

An annual fee of $100,000 is due Delverde from the date of the Agreement until all contemplated construction at the community is complete. Also, a collection fee is due Delverde equal to 3/8 of 1% of all deferred installment contract receivable payments (not including down payments) collected by the Venture under contracts for the sale of homesites and other land. The Venture pays sales commissions to the Company's branch sales offices and independent franchised dealers on sales they generate.

Venture net profits (losses) are allocated to Delverde and Madonna (the "Venturers") according to their respective interest in the Venture—50% each. Solely for Federal income tax purposes, the Venture's basis in the land is its adjusted basis just prior to conveyance to the Venture and the excess by which that adjusted basis exceeds the $5,000,000 stated value (the "excess tax basis") inures solely to the benefit of Madonna.

Venture homesites are sold under contracts which require a minimum 10% down payment and monthly installments, including interest at 7¼%, 7½%, 7¾%, or 8% over periods which range from 2 to 8½ years.

Venture accounting policies with regard to homesite sales and homesite contract cancellations are the same as those of the Company (See Note 1) except that the Venture charges all interest and real estate taxes to operations as incurred.

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Following is condensed information (in thousands of dollars) about the Venture's consolidated financial position at December 31, 1978 and 1977 and the consolidated results of Venture operations for the years then ended:

Tierra Verde Company Condensed Balance Sheets
December 31, 1978 and 1977

Assets

	1978	1977
Cash	$ 2,533	$ 1,249
Contracts and other receivables—net	13,078	4,381
Inventory of land and land improvements	1,466	3,350
Other (principally cost of hotel and renovation in progress)	3,864	3,238
Total	$20,941	$12,218

Liabilities and Venturers' Equity

	1978	1977
Mortgage notes payable	$ 7,729	$ 3,367
Accounts payable and accrued expenses	1,290	1,261
Deferred revenue—future improvements	5,516	276
Total liabilities	14,535	4,904
Venturers' Equity:		
Delverde, Inc.	3,203	1,204
Madonna Corp.	3,203	6,110
Total Venturers' Equity	6,406	7,314
Total	$20,941	$12,218

Condensed Statements of Income and Changes in Venturers' Equity
For the Years Ended December 31, 1978 and 1977

	1978	1977
Revenues:		
Net land sales	$10,319	$ 6,057
Interest income	1,055	201
Other	1,968	192
Total	13,342	6,450
Cost and Expenses:		
Cost of land sales	2,513	1,743
Selling, general and administrative expenses	5,899	2,072
Management fees	100	238
Interest expense	779	109
Total	9,291	4,162
Net Income	4,051	2,288
Venturers' Equity—Beginning of Year	7,314	4,982
Contributions (Withdrawals) by Venturers—net	(4)	44
Assumption of permitted mortgage by Venture	(4,955)	—
Venturers' Equity—End of Year	$ 6,406	$ 7,314

BALANCE SHEET CONTAINS TWO AMOUNTS FOR THE VENTURE

BELSCOT RETAILERS, INC.
Notes to Financial Statements

G. Investments in Joint Ventures

The Company's share of losses in partnership joint ventures was approximately $79,000 from the date of purchase and is reflected in current liabilities and rental from departments leased to others in the financial statements. Each year, substantially all of the Company's share of earnings or losses in the partnership joint ventures is currently distributed, so that the Company's investments in joint ventures, at cost, and the distributions receivable from/payable to joint ventures represent the Company's equity in the underlying net assets of the joint ventures.

CONNECTICUT GENERAL MORTGAGE AND REALTY INVESTMENTS
Balance Sheet

At March 31 ($ in thousands)	1979	1978
Assets		
Investments, at cost		
••••		
Partnerships, less equity adjustments of $8,971,000 and $6,766,000 (Note 5)	22,189	13,432
••••		
Liabilities		
••••		
Cash distributions from partnerships in excess of net investment (Note 5)	2,380	30
Shareholders' Equity (See accompanying statement)	107,403	110,163
••••		

Notes to Financial Statements

Note 5—Partnerships

At March 31, 1979, the Trust had investments in 17 partnerships which cost $31.2 million, as shown in the table on page 10. At March 31, 1978, there were 15 partnerships with a cost of $20.2 million. In the financial statements, partnerships are stated at cost less aggregate equity accounting adjustments. As shown in Schedule (A), on a cumulative basis these adjustments comprise adjustments for operations and adjustments for cash distributions. Each year the adjustment for operations reflects the Trust's share of each partnership's income (an increase) or loss (a decrease) and the aggregate net of these adjustments increased the Trust's net income by $770,000 and $100,000 in 1979 and 1978, respectively. Cash distributions from partnership operations decrease the Trust's investment and cash distributions in excess of net investments are separately stated, as shown in Schedule (B). In 1979, the Trust received $754,000 of cash distributions from partnership operations in excess of net investments, up from $30,000 in 1978.

The partnerships are able to distribute cash in excess of their net income because the partnerships, like the Trust, invest in commercial, real estate properties and distribute cash in excess of their net income since their property operating results are reduced by noncash charges—primarily depreciation. Under the equity method of accounting, the Trust may not report as current income to the Trust, cash receipts in excess of its share of partnership net income.

In addition to the partnership distributions of $754,000 from operations in excess of the Trust's net investment, as shown in Schedule (B), the Trust received $1,596,000 in December 1978 as its share of the net proceeds of refinancing an apartment complex owned by a partnership in which the Trust is a partner. The Trust retains its original partnership interest and is not obligated to increase its current investment. Both the $1,596,000 cash gain from the refinancing and the $754,000 from operations of certain partnerships, have been deferred to such time that the Trust sells, or otherwise disposes of, its partnership interest and at that time these distributions will increase the gain from such disposition.

Partnership Investments, Net

($ in thousands)	Cumulative at March 31 1979	 1978
Investments at cost	$31,160	$20,198
Equity adjustments—operations		
For net losses	(1,184)	(1,221)
For net income	834	101
Equity adjustments—cash distributions		
From net income	(834)	(101)
From other funds provided by operations	(7,787)	(5,545)
	(8,971)	(6,766)
Net investment	$22,189	$13,432

Cash Distributions From Partnerships In Excess Of Net Investment		
	Year Ended March 31	
($ in thousands)	1979	1978
At beginning of year	$ 30	$ —
Current year distributions		
From funds provided by operations	754	30
From mortgage financings	1,596	—
At end of year	$2,380	$ 30

FEDERAL RESOURCES CORPORATION
Notes to Financial Statements

Note B—Investment in Federal-American Partners

Federal-American Partners recovers costs of mining claims and leases and development expenses through concentrate production. The Partnership has entered into contracts with Tennessee Valley Authority (TVA). TVA has priority for the use of all Partnership personnel, existing plant and equipment, and rights to certain ore reserves. In connection with the TVA contracts, the Partnership agreement has been extended to 1990 with provision for future extensions. The Partnership is expected to mine and mill all ore relating to the TVA contracts. The TVA mining lease agreement calls for royalty payments to be made to the Partnership when concentrates are produced equivalent to 50% of the difference between production cost as defined and the then "market price" as defined. An amendment to the TVA milling and exploration agreement allows the Partnership to retain 50% of the net income from the tolling of certain custom ore for another mining company, which tolling contract was completed in October 1978, when processing of TVA ore commenced.

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Financial information of Federal-American Partners was:

	April 30	
	1979	1978
Summary of financial position:		
Current assets	$ 593,325	$2,914,281
Property, plant, and equipment	1,009,440	931,095
Other assets	568,801	598,732
	2,171,566	4,444,108
Current liabilities	58,233	475,449
American Nuclear Corporation's equity	766,539	1,569,351
	824,772	2,044,800
Federal Resources Corporation's Equity	$1,346,794	$2,399,308
Summary of earnings:		
Revenues	$2,305,123	$ 799,851
Costs and expenses	11,516	3,986
Net earnings	$2,293,607	$ 795,865
Share of net earnings for Federal Resources Corporation	$1,376,164	$ 477,519

At April 30, 1978, $1,500,000 of the investment in Federal-American Partners was classified as a current asset because that amount was distributed to the Company in cash in June 1978.

Costs of the Company's interest in the mining claims and leases and stripping and development expenses of the Partnership to be recovered from future production at April 30, 1979 and 1978, are:

	1979	1978
Mining claims and leases	$510,932	$448,686
Stripping and development expenses	303,144	303,144
	$814,076	$751,830

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EQUITY IN VENTURE INCOME OFFSET AGAINST VARIOUS TYPES OF EXPENSES

FIRST INTERNATIONAL BANCSHARES, INC.
Notes to Financial Statements

(4) Bank Premises and Equipment

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Included in bank premises and equipment is the fifty percent interest of First National Bank in Dallas ("First in Dallas") in a joint venture ("the Venture") composed of First in Dallas and the Prudential Insurance Company of America ("Prudential"). The Venture has leased from First in Dallas, for a period ending December 31, 2047, the 56-story First International Building and the related 11-story parking garage. The fifty percent interest of First in Dallas in the net income or loss of the Venture is reported in net occupancy expense by the equity method of accounting. The equity investment of First in Dallas in the Venture at December 31, 1978 and 1977 was $14,664,000 and $14,018,000, respectively. Prudential has provided an equity investment in the Venture equal to the investment of First in Dallas as well as $63,500,000 of long-term financing at an interest rate of 8½% per annum for such buildings, which indebtedness is secured by a Deed of Trust, Mortgage and Security Agreement. Neither First International nor its subsidiaries have a material liability for such indebtedness.

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GEORGIA POWER CO.
Balance Sheets

In Thousands		
December 31	1978	1977
Assets		
• • • •		
Other Property and Investments		
Southern Electric Generating Company (Note 4)	16,400	16,400
• • • •		

Notes to Financial Statements

4. Facility Sales and Joint Ownership Agreements:

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The Company and one of its affiliates, Alabama Power, own equally all of the outstanding capital stock of Southern Electric Generating Company (SEGCO) which owns an electric generating plant with a total rated capacity of 1,019,680 kilowatts, together with associated transmission facilities. The capacity of the plant has been sold equally to the Company and Alabama Power under a contract expiring in 1994 which, in substance, requires payments sufficient to provide for the operating expenses, taxes and debt service, including a return on investment, whether or not SEGCO has any power and energy available. The Company's share of such amounts totaled $51,210,000 and $51,939,000 in 1978 and 1977, respectively, and are included in purchased power in the statements of income. In addition, Alabama Power has guaranteed unconditionally the obligations of SEGCO under an installment sale agreement relating to $17,400,000 principal amount of pollution control revenue bonds. The Company has agreed to reimburse Alabama Power for the pro rata portion of such obligation corresponding to the Company's then proportionate ownership of stock of SEGCO if Alabama Power is called upon to make such payment under its guaranty.

At December 31, 1978, the capitalization of SEGCO consisted of $32,800,000 of equity and $52,499,000 of long-term debt on which the annual interest requirement is $3,316,000. Through December 31, 1978, SEGCO has paid dividends equal to its net income.

S.S. PIERCE COMPANY, INC.
Notes to Financial Statements

B. Joint Venture Investments and Agreements:

(1) *Snake River Vineyards*—The Company had a one-third interest in Snake River Vineyards, a partnership joint venture near Pasco, Washington. Effective January 1, 1978, this investment was sold to the remaining investors for $200,000. Because of timing differences, relating to the expensing

of Vineyard development costs for tax purposes, a tax gain of $820,000 was realized on the sale as compared to a minimal book loss. The Company's share in the losses, as included in the cost of product sold in the consolidated statement of net earnings, were $329,000 to December 31, 1977 and $337,000 for the year ended July 31, 1977 which reduced consolidated net earnings by $170,000 and $175,000, respectively. The sale agreement, among other items, includes arrangements in which the Company will guarantee operating loans of Snake River Vineyards until December 31, 1978, up to $1,500,000 as well as provisions for the delivery of grapes to the Company over the next five years.

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STANDARD OIL COMPANY OF CALIFORNIA
Summary of Significant Accounting Policies

Subsidiary and Affiliated Companies

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Investments in and advances to those affiliates in which the Company has a substantial ownership interest of approximately 20% to 50% and in which the Company participates in policy decisions are accounted for by the equity method, i.e., at remaining unamortized cost increased or decreased by the Company's share of earnings or losses, after dividends.

The Company's share of the net profits and losses of such affiliates, except Arabian American Oil Company (Aramco) is included as a separate item in the consolidated statement of income. The Company's share of income from Aramco represents primarily income from the sale of crude oil to the Company and has been credited to purchased crude oil and products in the consolidated statement of income. The effect of this classification is to reflect in the purchases caption the net cost of Arabian crude oil to the Company.

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SUTRO MORTGAGE INVESTMENT TRUST
Notes to Financial Statements

14. Equity Investment in Real Estate

The Trust owns a 50% interest in a first mortgage loan secured by a shopping center in Chicago, Illinois. The current Trust investment in the first mortgage loan is $4,054,012. Effective July 1, 1976, the Trust purchased a 25% equity interest in the partnership which owns this center. The Trust has classified this equity investment as a non-earning asset. The Trust's share of partnership operations in fiscal 1979 and 1978 amounted to losses of $20,300 and $110,500, respectively. Approximately $88,100 and $88,000 in fiscal 1979 and 1978, respectively, representing interest earned on the related loan, has been offset against the Trust's share of the partnership loss to determine the equity in net income of partnership of $67,800 in fiscal 1979 and net loss of $22,500 in fiscal 1978.

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TIME INCORPORATED
Notes to Financial Statements

Investments in Unconsolidated Subsidiaries and Companies
20 Percent to 50 Percent Owned

The Company's investments in the capital stock of these companies, accounted for on the equity basis, exceeded its equity in their related net assets by approximately $2,600,000 at December 31, 1978, and $11,500,000 at December 31, 1977.

The Company's 50 percent investment in Georgia Kraft Company, which was acquired as part of Inland Container Corporation in 1978, is classified as Property and Equipment since that company's underlying net assets are primarily mill operating properties and timberlands, which are the principal sources of Inland's raw material requirements. At December 31, 1978, the total assets of Georgia Kraft were $300,366,000 and total liabilities were $147,410,000. Revenue for 1978 from date of acquisition was approximately $31,252,000, and net income for the same period was $2,176,000. The Company's 50 percent equity in Georgia Kraft's net income is included as a reduction of manufacturing costs.

EQUITY METHOD DISCONTINUED—NO WRITEOFF OF INVESTMENT

APPLIED MATERIALS, INC.
Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies

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In 1977 the Company used the equity method to account for its investment in Great Western Silicon Corporation, a corporate joint venture between the Company and Fairchild Camera & Instrument Corporation, because, under the articles of incorporation and by-laws of Great Western, neither the Company nor Fairchild have the ability to exercise unilateral control. In 1978 the Company announced its intention to sell its interest in Great Western Silicon, and accordingly, the Company's investment therein is now classified as a current asset and carried at cost.

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BOND INDUSTRIES, INC.
Notes to Financial Statements

Note M—Litigation:

In May 1978, two individuals and Growth Industries, Inc. ("Growth"), instituted an action against the Company, Bond Stores, Incorporated ("Stores") and Julius Trump, who is the Chairman of the Board and Treasurer of the Company, claiming, among other things that the defendants failed to perform under the terms of certain agreements with plaintiffs, induced or deceived plaintiffs to agree to a modification of the defendants' obligations, refused to apply the proceeds of a sale of a former subsidiary of the Company in accordance with certain arrangements or agreements, and that certain agreements or releases given by the plaintiffs are void. In addition, the plaintiffs claim that the Company has no ownership interest in the stock of Growth. The action seeks, among other things, damages claimed to be in the amount of approximately $10,000,000, which the plaintiffs claim should be trebled to $30,000,000, that the proceeds ($5,900,000) in connection with the sale of the former subsidiary mentioned above be held in trust for the benefit of the plaintiffs, temporary restraining orders enjoining the Company from transferring or disposing of any interest it has in any stock of Stores, and interest, costs and attorney's fees. The defendants have moved to dismiss portions of the complaint and both parties have requested discovery.

In September 1978, the Company commenced an action against the plaintiffs seeking, among other things, damages in excess of $3,600,000, access to the books and records of Growth (see the second following paragraph) and an accounting by the individual plaintiffs for waste and loss arising from their management of Growth, and costs and attorney fees; the plaintiffs' time to answer has not yet expired.

The Company regards the action against itself and its codefendants as entirely without merit or substance. Counsel for the Company is of the opinion that the outcome of these actions will not have a material adverse effect on the Company.

The Company has not been able to obtain any financial information for the year ended July 29, 1978 or subsequent thereto with respect to Growth nor has it been able to exercise any control over its investment. Accordingly, effective April 29, 1978, the Company was unable to account for its investment in Growth on the equity method and is unable to evaluate the appropriateness of the carrying amount ($434,000) as of July 29, 1978 in the accompanying financial statements.

PAUL MUELLER COMPANY
Notes to Financial Statements

6. Investment in Joint Venture:

Mueller Europa B.V. (See Note 1) operates under the terms and conditions specified by the "Main Agreement" entered into by the two shareholders. The original agreement is for a period of ten years ending May 11, 1979, but provides for an unlimited number of extensions for periods of five years each. Paul Mueller Company (but not the other shareholder) has the option not to extend the agreement beyond the original ten-year period, providing notice of nonextension is given six months prior to the termination date.

Within the "Main Agreement" is a "License Agreement," under which Mueller Europa B.V. is licensed to manufacture certain of the products of Paul Mueller Company. In June of 1978, Paul Mueller Company served notice of termination of this License Agreement after Mueller Europa B.V. refused to correct what Paul Mueller Company claimed to be breaches of contract by Mueller Europa B.V.

Subsequent to this, and without prejudice to its notice of termination for breach of contract, Paul Mueller Company served notice of its nonextension of the "Main Agreement." The Dutch company, which is co-owner of Mueller Europa B.V., has filed for arbitration to determine whether or not Paul Mueller Company's termination for breach of contract was effective.

In December of 1978, in legal proceedings initiated by Mueller Europa B.V., before the Netherlands court, the presiding judge issued a temporary restraining order which essentially orders both shareholders to abstain from taking or failing to take actions for a period of seven months which would endanger the continuity of Mueller Europa B.V.

In the meantime, the parties to the action are continuing to negotiate for a settlement. If a settlement is not reached, the present agreement provides for dissolution of the joint venture.

In that event, substantial costs could be incurred for employee welfare as required by Netherlands' law. Although the amount of such costs is not presently determinable, it is possible that the Company would not be able to realize its investment ($2,329,788, shown in the accompanying Consolidated Balance Sheet) in the joint venture company should dissolution occur.

In addition, the agreement provides that Paul Mueller Company may be required to pay the other shareholder 50 percent of any goodwill generated by the joint venture company during its existence. The amount of goodwill to be paid, if any, would be determined by an independent third party. The question whether, when, and what amount might be payable cannot be determined with any degree of certainty.

Because of these uncertainties, Paul Mueller Company suspended reporting their equity in earnings of the joint venture for the nine-month period ended December 31, 1978. The unrecorded equity in earnings, including foreign currency translation gains of $180,314 net of related tax, amounted to $843,919 or $.70 per share.

EQUITY METHOD DISCONTINUED—WRITEOFF OF INVESTMENT

INTERNATIONAL BASIC ECONOMY CORPORATION
Notes to Financial Statements

10. Extraordinary items:

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During 1975 certain African joint ventures were severely affected by civil war and by political and economic conditions. The Company's investments in and receivables from such joint ventures, held by a subsidiary, amounting to $1,254,000, less applicable income taxes of $59,000 and minority interest of $117,000, have been fully reserved by an extraordinary charge to income in 1975. In addition, the U.S. federal income taxes provided on the disposition of CADA (see Note 8) have been eliminated through the utilization of available loss carryforwards. The tax benefit of $1,715,000 from the utilization of loss carryforwards has been recorded as an extraordinary item.

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LOGICON, INC.
Notes to Financial Statements

Note 7. Nortech, Inc.

In fiscal 1979 the Company wrote off its investment and all prior net income from Nortech, Inc., a 50-percent-owned affiliate which is experiencing losses on certain contracts. The resulting cost attributable to Nortech in fiscal 1979 was $199,000 before taxes. To assist Nortech in completing its contracts, Logicon has currently made working capital advances of $1,229,000 to Nortech, and guaranteed bank loans in the amount of $264,000. Nortech is concluding its contracts and will submit claims to cover costs incurred for changes to the performance requirements on two major contracts. Although no assurance can be given, management believes that Nortech will successfully complete its contracts and prevail in claims for increased contract costs, and as a result the Company will recover its advances.

TEJON RANCH CO.
Notes to Financial Statements

Note B—Tejon Agricultural Partners

Tejon Agricultural Partners (TAP) was formed in 1972 as a limited partnership to develop and farm approximately 21,000 acres of land in Kern County, California. The Company, through its wholly-owned subsidiary, Tejon Agricultural Corporation (TAC), the general partner, contributed cash and 21,000 acres of land to the Partnership. In 1976 the Company wrote off its investments and provided for all commitments to the Partnership. Additionally, in 1976 the Company discontinued accruing the annual land use fee of $1,150,000 due to TAC under the provisions of the partnership agreement.

The partnership agreement provides for the land and improvements to be returned to TAC subject to any rights of creditors upon termination of TAP in 1997. Approximately 10,000 acres of such land have been identified for possible sale to provide funds to sustain the operations of the Partnership (6,700 acres sold as of December 31, 1978). The possibility of TAC receiving such land upon termination or dissolution of the Partnership is eliminated to the extent that land sales occur.

The financial statements of TAP (examined by other auditors who were unable to express an opinion because of material uncertainties as to the Partnership continuation as a going concern) are summarized as follows:

	December 31	
	1978	1977
Total assets	$ 25,076,783	$ 32,341,858
Total liabilities	48,082,584	49,183,889
Net Assets (Deficiency)	$(23,005,801)	$(16,842,031)
Revenues	$ 10,622,145	$ 13,123,905
Expenses (including $1,368,284 in 1978 and $1,858,727 in 1977 accrued for land use and management fees to Tejon Ranch Co.)	16,785,915	20,276,137
Net Loss	$ 6,163,770	$ 7,152,232

INCOME TAXES OR CERTAIN GAINS AND LOSSES OF VENTURE REPORTED SEPARATELY

CONTEXT INDUSTRIES, INC.
Notes to Financial Statements

2. Joint Ventures:

Unconsolidated Joint Ventures:

Investments in and advances to unconsolidated joint ventures consist of the following:

	1978	1977
(a) Flint Ridge Development Company	$1,318,000	$1,405,000
(b) Rainbow Springs	4,172,000	3,686,000
	$5,490,000	$5,091,000

Summarized financial information for these two ventures is as follows:

	1978		1977	
	Flint Ridge	Rainbow Springs	Flint Ridge	Rainbow Springs
Total assets	$8,494,000	$9,280,000	$7,573,000	$7,760,000
Liabilities other than to Venturers	$5,861,000	$1,802,000	$4,758,000	$ 539,000
Amounts due to Venturers	—	8,243,000	—	8,021,000
Total equity (deficit)	2,633,000	(765,000)	2,815,000	(800,000)
	$8,494,000	$9,280,000	$7,573,000	$7,760,000
Total revenues	$1,507,000	$2,428,000	$ 581,000	$1,433,000
Net earnings (loss)	$(182,000)	$ 35,000	$ 236,000*	$(66,000)

*Includes extraordinary item—$414,000.

(a) Flint Ridge Development Company:

In May 1973, a subsidiary of the Company entered into a joint venture agreement with a corporation controlled by a shareholder/director to purchase, develop and sell approximately 7,000 acres of land in Oklahoma known as the Flint Ridge Development. The Venturers own the property as equal tenants in common and all profits and losses are shared equally.

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During 1977, the Joint Venture and its lenders negotiated certain modifications to the terms of loan documents resulting in a debt reduction of approximately $414,000. At December 31, 1978, the restructured debt amounted to $4,669,000 and is jointly and severally guaranteed by the Venturers. The Company recorded its proportionate share of the 1977 gain from the restructuring as an extraordinary item in the accompanying consolidated statements of earnings. The gain was not reduced by a provision for income taxes because of a capital loss carryforward.

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EMERY INDUSTRIES, INC.

Consolidated Statement of Income

(dollar amounts in thousands except for per share data)

	Years Ended March 31, 1978	1977
• • • •		
Equity in net income of unconsolidated companies, excluding currency translation gains and losses	1,440	896
Currency translation gains (losses)	(647)	258
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Notes to Financial Statements

Note 4—International Operations:

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Unconsolidated companies include Unilever-Emery N.V., a 50% owned enterprise in The Netherlands and Quimica Michoacana S.A. de C.V., a 49% owned enterprise in Mexico. Unilever-Emery N.V. has manufacturing facilities similar to Emery for production of oleochemicals which are sold primarily in Europe. Quimica Michoacana S.A. de C.V. is the leading producer of fatty acids in Mexico which it sells in Mexico and exports to Latin American countries and other parts of the world.

	Emery's 50% Interest in Unilever-Emery N.V.		
	1978	1977	1976
Net sales	$39,380	$35,198	$29,539
Net income:			
Before currency translation gains (losses)	$ 1,148	$ 575	$ 1,224
Currency translation gains (losses)	718	551	(1,113)
	$ 1,866	$ 1,126	$ 111

Emery's equity in net income of Quimica Michoacana S.A. de C.V. was $269 and $215 net of currency translation losses of $23 and $106 in 1978 and 1977, respectively; equity in net income was $49 in 1976 when there were no currency translation gains or losses.

ENERGY VENTURES, INC.

Consolidated Statement of Income

For the years ended December 31, 1978 and 1977

(Note 1)

	1978	1977
Income:		
Equity Share of COLEVE net income	$ 1,752,000	$2,128,000
Additional income accrued under provisions of COLEVE Joint Venture Agreement	2,825,000	2,478,000
• • • •		

Notes to Financial Statements

1. Organization and Accounting Policies

The Company was organized in 1972 to participate with Columbia Gas Development Corporation ("Columbia Development"), a wholly-owned subsidiary of The Columbia Gas System, Inc. ("Columbia Gas") in an unincorporated joint venture ("COLEVE") in oil and gas exploration off the Louisiana and Texas coasts.

The Company has advanced $50,000,000 to COLEVE (reduced during 1978 to $16,667,000) and has contributed $31,776,000 to the equity of COLEVE. Details of the advances to COLEVE are covered in Note 3 of the COLEVE financials. At December 31, 1978, the Company was committed to contribute an additional $1.2 million to COLEVE to develop the properties.

The Company uses the equity method of accounting for its investment in COLEVE. This method recognizes as income the Company's pro-rata share of the net earnings of COLEVE. However, because of certain provisions in the Joint Venture Agreement, the Company is entitled to an additional share of COLEVE earnings resulting primarily from the two $37.5 million priority distributions (one each to Energy and Columbia Development) of COLEVE net earnings as defined, the effect of the $50,000,000 contribution provision described in Note 3 to COLEVE's financial statements, and from special allocations of COLEVE's tax deductions. The Company is reflecting the effect of the $37.5 million priority distributions during the periods these distributions occur. The net effect of the other provisions is being reflected in the Company's earnings as the total estimated reserves are produced.

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GULF+WESTERN INDUSTRIES, INC.
Notes to Financial Statements

Note A—Significant Accounting Policies

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its significant majority-owned affiliates other than finance and insurance subsidiaries. Investments in unconsolidated subsidiaries and 20-50% owned entities are carried on the equity basis of accounting. The equity in earnings before income taxes and foreign exchange gains or losses of these companies is included in operating income and the related income taxes and foreign exchange adjustments are included in the provision for income taxes and other (income), respectively. Investments in other corporate stock are carried at amounts not in excess of cost.

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THE MEAD CORPORATION
Notes to Financial Statements

C. Jointly-Owned Companies

Description and Operations. The company's principal domestic jointly-owned investments are Georgia Kraft Company and Brunswick Pulp & Paper Company. Georgia Kraft manufactures coated carrier stock and uncoated kraft linerboard; and Brunswick manufactures bleached kraft pulp and board. Each of these companies is 50% owned, produces lumber, and supplies the company with raw materials used in its packaging, container, and paper operations.

The company's principal Canadian investments are Northwood Pulp and Timber Limited and British Columbia Forest Products Limited. Mead owns 50% of Northwood and 28.5% of BCFP. Both manufacture bleached softwood kraft pulp and produce lumber in their sawmill operations. BCFP also manufactures paper, newsprint, and plywood.

The company has long-term purchase contracts with Georgia Kraft, Brunswick, and Northwood. Under the purchase contracts with Georgia Kraft and Brunswick, Mead is obligated to purchase 50% of the output of each of these companies at prices sufficient to provide for its share of all costs and expenses including interest on indebtedness, but excluding taxes on income. Additionally, the payments must provide adequate funds to meet all obligations and to pay current installments of funded indebtedness. In the case of Northwood, Mead is not obligated to purchase a fixed amount of output; however it is obligated to purchase sufficient pulp to meet 50% of current installments of funded indebtedness.

Financial Reporting. Mead's investments in unconsolidated jointly-owned companies are stated at cost plus equity in undistributed earnings, which approximates the portion of shareholders' equity applicable to Mead's investment. The composition of Mead's total investments in these companies is:

December 31	1978	1977
(All dollar amounts in thousands)		
Investments—at cost	$ 54,386	$ 53,473
Equity in undistributed earnings	181,832	141,953
Mead's investments in jointly-owned companies	236,218	195,426
Advances	2,037	3,610
Total investments in and advances to jointly-owned companies	$238,255	$199,036

Pulp and board produced by the affiliates, including Georgia Kraft, Brunswick, and Northwood, are part of Mead's raw material supply system. Therefore, the pre-tax earnings on these products of jointly-owned companies are recorded as an offset to Mead's cost of products sold. All pre-tax earnings from BCFP, the sawmill operations of Northwood, and certain other affiliates are reported as equity in earnings of jointly-owned companies. Applicable taxes on these earnings are included in the provision for income taxes.

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Summary operating data of jointly-owned companies, presented in relation to Mead's reporting for these companies, is:

Year Ended December 31	1978						1977
(All dollar amounts in thousands—U.S.)	Georgia Kraft	Brunswick	Northwood	BCFP	Other	Combined	Combined
Revenues	$250,867	$166,685	$161,540	$624,194	$62,264	$1,265,550	$1,046,851
Costs and expenses	218,852	149,526	131,396	504,985	54,478	1,059,237	890,009
Interest expense	6,296	7,317	1,445	19,072	243	34,373	30,105
Income taxes	7,538	4,843	10,627	46,005	3,468	72,481	54,279
Net earnings	$ 18,181	$ 4,999	$ 18,072	$ 54,132	$ 4,075	$ 99,459	$ 72,458
Sales to Mead included above	$131,579	$ 75,060	$ 24,425	$ 2,538	$ 7,154	$ 240,756	$ 222,585
Mead's share of net earnings	$ 9,091	$ 2,419	$ 9,036	$ 15,422	$ 2,227	$ 38,195	$ 28,976
Reported in Mead's statement of earnings as:							
Reduction of cost of products sold	$ 11,165	$ 4,921	$ 3,885	$	$ 3,026	$ 22,997	$ 22,403
Equity in earnings before taxes of jointly-owned companies	2,425		10,467	28,464	915	42,271	28,904
Earnings before taxes	13,590	4,921	14,352	28,464	3,941	65,268	51,307
Income taxes	4,499	2,502	5,316	13,042	1,714	27,073	22,331
As above	$ 9,091	$ 2,419	$ 9,036	$ 15,422	$ 2,227	$ 38,195	$ 28,976

MOBILE CORPORATION
Notes to Financial Statements

1 Major Accounting Policies

Principles of Consolidation

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Significant investments in companies owned 50% or less, and in the unconsolidated financial services and real estate subsidiaries, are accounted for on the equity method. Under this method the investment is carried at cost plus equity in undistributed earnings since the time of acquisition, after applicable adjustments.

Certain of these companies, principally the Arabian American Oil Company (Aramco), are engaged in the production of crude oil, Mobil's share of which is used in its own supply system. Mobil's equity in the pre-tax income of these companies is included in "Crude oil, products, merchandise, and operating supplies and expenses," and its share of the related taxes is included in "income taxes."

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INVESTMENT ACCOUNT BALANCE IS A CREDIT

ATLANTA/LASALLE CORPORATION
Consolidated Balance Sheets

	Pro Forma as of October 31 1978—Note B (Unaudited)	October 31 1978	1977
••••			
Long-Term Debt—less portion classified as a current liability—Note E	—	2,027,873	2,952,892
Share of Accumulated Losses of Countryside Joint Venture in Excess of Investment and Advances—Note C and Schedule III	499,549	499,549	202,773
••••			

Notes to Financial Statements

Note C—Data Relating to Countryside Joint Ventures

At October 31, 1978, the Corporation had a 63% interest in Countryside Joint Venture, an Illinois partnership which owns certain land in northern Illinois. Pursuant to a December, 1978 agreement, the Corporation's interest in the Joint Venture was terminated in connection with the Joint Venture's refinancing of a note payable to ALCC, the formation of a new partnership as described below, the payment to the Corporation of approximately $260,000 by the co-venturers, and the indemnification by a co-venturer of the Corporation with regard to certain obligations relating to the Joint Venture.

The Corporation has a 67% interest in the new partnership which owns a 6% note receivable (uncollected balance of $2,163,048 at October 31, 1978) which is due in quarterly installments through April, 1984. The Partnership has a note in like amount payable to a bank in quarterly installments through April, 1984. This note bears interest at 2 1/2% over the prime rate of the bank and is collateralized by the 6% note receivable. The Corporation has guaranteed payment of 67% of the outstanding balance of the bank note and is obligated to pay 67% of the difference between interest expense and interest income of the Partnership.

The Corporation's gain resulting from the termination of its interest in the Joint Venture, less its share of future losses of the Partnership, is estimated to be $500,000. Such gain has not been recognized in the financial statements as of October 31, 1978.

CROWN CENTRAL PETROLEUM CORPORATION
Notes to Financial Statements

Note C—Investment in 50%-Owned Companies

The investment in 50%-owned companies consists of the following at December 31, 1978:

	Equity	Advances and Notes	Total
International Calciners, Inc.	$2,256,000		$2,256,000
CMP Coal Co., Inc.	(902,000)	$4,040,000	3,138,000
Race Fork Coal Corporation	(210,000)		(210,000)
Woodman-Luke Joint Venture	187,000		187,000
	$1,331,000	$4,040,000	$5,371,000

In connection with the acquisition in 1977 of a 50% interest in Race Fork Coal Corporation, a subsidiary of the Company has entered into a 50/50 joint venture (Woodman-Luke) to construct a coal cleaning plant to be leased to Race Fork. The Woodman-Luke Joint Venture and Race Fork Coal Corporation have obtained loan commitments totaling $15,000,000 of which $7,320,000 has been drawn down at December 31, 1978. The loan to the Woodman-Luke Joint Venture is secured by a mortgage on substantially all of its assets and an assignment of the Race Fork lease. The Company and the other participant in the joint venture have entered into a coal purchase agreement with Race Fork under which they are obligated to buy on a cost-plus basis all coal produced by Race Fork and, under certain circumstances, to make refundable advance payments.

Note F. Investment in Joint Ventures

The Real Estate line of business had partnership interests ranging from 24.5% to 50% in 16 joint ventures at February 3, 1979. Condensed combined financial statements of the joint ventures follow:

Condensed Combined Results of Operations for the Year Ended December 31

	1978	1977
Operating Properties		
Rental revenue	$ 24,421	$ 16,440
Operating expenses	9,653	7,418
	14,768	9,022
Other (Income) Expense		
Interest expense (excluding interest capitalized of $481 in 1978 and $484 in 1977)	12,715	10,104
Depreciation and amortization	4,451	3,537
Development expense	856	961
Gain from property sales	(3,172)	(2,812)
Other, net	(285)	453
	14,565	12,243
Earnings (Loss)	$ 203	$ (3,221)

Reconciliation of Real Estate's Share of Earnings (Loss) of Joint Ventures

	1978	1977
Real Estate's share of operations (1)	$ (41)	$ (1,025)
Interest capitalized by joint venture	(160)	(161)
Other adjustments	(53)	146
Equity in loss as reflected in accompanying Real Estate results of operations	$ (254)	$ (1,040)

Condensed Combined Statement of Financial Position at December 31

Assets

	1978	1977
Cash, receivables and other assets	$ 12,203	$ 14,933
Shopping centers and commercial property	106,555	99,751
Shopping centers under construction	24,129	6,923
Undeveloped land	32,599	30,831
	175,486	152,438
Less: Accumulated depreciation	(19,356)	(14,950)
	$156,130	$137,488

Liabilities

	1978	1977
Accounts payable and accrued expenses	$ 11,196	$ 14,284
Payable to Real Estate	10,332	6,746
Long-term debt (2)	142,435	121,099
Deferred gain on land sales	1,753	534
	165,716	142,663

Partners' Equity

	1978	1977
Real Estate	(2,623)	(745)
Other partners	(6,963)	(4,430)
	(9,586)	(5,175)
	$156,130	$137,488

Reconciliation of Real Estate Investment in
and Advances to Joint Ventures

	February 3, 1979	January 28, 1978
As shown above	$(2,623)	$ (745)
Advances to joint ventures	1,250	1,851
Cumulative effect of adjusting to Real Estate's accounting policies	24	61
Difference in basis of contributed property	(2,881)	(1,538)
As included in the caption Investments and Other Assets in accompanying Real Estate statements of financial position	$(4,230)	$ (371)

(1) The tax benefit resulting from Real Estate's share of the loss is reflected in the provision for income taxes in the accompanying Real Estate Financial Statements.

(2) In certain situations, because of competitive market conditions and for favorable financial arrangements, the Real Estate subsidiaries have guaranteed repayment of joint venture debt until certain conditions have been met. Real Estate subsidiaries were contingently liable for $3.4 million of joint venture debt at February 3, 1979.

HOMART DEVELOPMENT CO.
SUBSIDIARY OF SEARS, ROEBUCK & CO.
Notes to Financial Statements

Statement of Income	Homart		Joint Ventures	
$ in thousands For Fiscal Year Ended	January 31		December 31	
	1979	1978	1978	1977
Rents and other revenues	$ 67,266	$ 54,119	$ 53,199	$ 41,696
Depreciation and amortization	10,131	8,768	7,736	6,234
Interest	13,738	13,637	25,119	22,575
Less interest capitalized	(1,360)	(2,367)	(3,244)	(5,120)
Other costs and expenses	33,056	26,883	20,152	17,198
	55,565	46,921	49,763	40,887
Income—Operating	11,701	7,198	3,436	809
—Sale of property	(408)	1,687	2,797	1,601
—Sale of center	17,633	3,886	—	—
—Sale of interest in joint venture	32,119	(373)	—	—
—Joint ventures	2,854	1,506	—	—
	63,899	13,904	$ 6,233	$ 2,410
Income taxes	23,221	5,432		
Net income	$ 40,678	$ 8,472		

Statement of Financial Postion	Homart		Joint Ventures	
$ in thousands At Fiscal Year End	January 31		December 31	
	1979	1978	1978	1977
Assets				
Shopping center property—net	$241,408	$221,863	$157,349	$167,242
Property held for or under development	32,114	42,672	60,592	57,363
	273,522	264,535	217,941	224,605
Investment in joint ventures*				
Notes and interest receivable	1,721	2,614		
Equity in joint venture capital	(13,096)	(13,574)		
	(11,375)	(10,960)		
Cash and marketable securities	75,687	1,060	2,077	4,134
Receivables and other assets	8,450	8,094	9,984	8,514
Total Assets	$346,284	$262,729	$230,002	$237,253

Liabilities				
Mortgages and other long-term debt	$199,151	$148,964	$185,399	$182,981
Construction loans	—	—	62,293	66,303
Accounts payable and accruals	33,651	13,625	15,955	20,282
Payable to Sears	(3,787)	23,575	—	—
Joint venture payables to Homart*	—	—	1,842	2,762
Deferred income taxes	15,271	15,449	—	—
Total Liabilities	$244,286	$201,613	$265,489	$272,328
Joint Venture Capital—Homart*			(15,235)	(15,594)
—Other partners			$ (20,252)	$ (19,481)
Shareholder's Equity	$101,998	$ 61,116		

*Homart's investment in joint ventures differs from the amounts recorded by the ventures due to differing fiscal year ends and differences in bases of property contributed to the ventures. Homart's equity in the joint ventures from inception through January 31, 1979, consists of capital contributions of $12.1 million less cash distributions of $27.8 million and Homart's share of profits of $2.6 million.

JUPITER INDUSTRIES, INC.
Notes to Financial Statements

Note 9—Real Estate Joint Ventures

Subsidiaries of the Company have interests of approximately 25% as general partner in each of four real estate joint ventures (Note 19). Three of these ventures own high-rise apartment buildings which are fully occupied. The fourth venture owns and operates a high-rise hotel. In 1978, a fifth venture which owned a high-rise motel entered into a limited partnership which reduced its investment and changed the subsidiary's interest from a general to a limited partner. As a result of the subsidiary's reduced interest in the venture, the venture's future operations will not have a material effect on the Company's consolidated financial statements. The subsidiaries' investments in these joint ventures included credit balances of $1,367,000 and $1,050,000 classified as "deferred items—other," at December 31, 1978 and 1977, respectively. In connection with four real estate joint ventures, the equity method of accounting was suspended when the credit balance in the respective investment accounts equaled the Company's legal obligations. At December 31, 1978, the Company's equity in the underlying net deficit of the four real estate joint ventures was $74,000 less than the negative carrying value. The equity in the underlying net deficit of the other real estate joint venture is $164,000 greater than its negative carrying value. Amortization of this amount will be completed in the next two years.

The following presents summarized financial information for the real estate joint ventures:

	1978	1977
	(In thousands)	
Net properties	$53,663	$58,323
Less—Secured debt	54,166	58,395
	(503)	(72)
Other liabilities—net	(3,556)	(3,884)
Net deficit	($ 4,059)	($ 3,956)
Revenues	$19,252	$18,783
Costs and expenses excluding depreciation	17,968	18,750
	1,284	33
Depreciation	2,792	2,897
Operating loss	($ 1,508)	($ 2,864)
Operating loss recorded by Jupiter	($ 89)	($ 626)

Substantially all debt of the real estate joint ventures is collateralized solely by real estate mortgages. The land on which two of the apartment buildings stand is leased under 99-year net leases expiring in 2066 and 2067. The high-rise hotel is leased under a 45-year net lease expiring in 2022. These net leases require minimum annual rentals, in the aggregate, of $531,000 plus additional rentals based upon revenues. For the years ended December 31, 1978 and 1977, additional rentals of $234,000 and $174,000, respectively, were payable.

At December 31, 1978, in connection with three joint ventures. Jupiter had guaranteed $912,000 of loans and the repurchase of a $50,000 limited partnership investment.

SHARON STEEL CORPORATION
Notes to Financial Statements

Note 4—Investments in Joint Ventures

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Sharon also has a 15.6% interest (12.5% prior to December 31, 1978) in the Pioneer Pellet Plant (a joint venture) and in the Negaunee Mine Company (which provides iron ore to Pioneer). Over the past five years Negaunee/Pioneer has supplied approximately 20% of Sharon's annual iron ore pellet requirements. The Negaunee/Pioneer facilities are expected to cease operation in July 1979, and provisions for shut-down costs (which are not significant to Sharon) are being accrued by Negaunee/Pioneer as part of the cost of iron ore. As a result of provisions for shut-down costs, at December 31, 1978 and 1977 Sharon's investment in Negaunee/Pioneer was in a deficit position, aggregating $1,366,000 and $339,000, respectively. Such amounts are included in Sharon's balance sheet under the caption "Other non-current liabilities".

SOUTHLAND FINANCIAL CORPORATION
Notes to Financial Statements

1. Accounting Policies and Related Matters

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Real Estate Operations—

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Various subsidiaries of Southland Financial participate in unincorporated joint ventures. Such unincorporated ventures are accounted for by the equity method; therefore, their assets and liabilities, revenues and expenses, do not appear in the financial statements. Combined summarized financial information of the unincorporated joint ventures follows:

Summary of Assets and Liabilities

Assets

	December 31, 1978	December 31, 1977
Land (at cost)	$14,549,903	$11,623,542
Rental properties (at cost, less accumulated depreciation of $3,535,647 and $3,394,728)	30,635,204	21,719,066
Other assets (including cash and receivables)	1,132,780	1,442,690
Total	46,317,887	34,785,298

Liabilities

	December 31, 1978	December 31, 1977
Accounts payable, accrued expenses, etc.	1,523,099	1,088,652
Notes and loans payable:		
Outsiders	29,105,268	20,360,850
Southland Financial and subsidiaries	10,317,627	11,405,166
Total	40,945,994	32,854,668
Excess of assets over liabilities	$ 5,371,893	$ 1,930,630
Applicable to:		
Southland Financial and subsidiaries	$ 84,055	$ (168,932)
Others	5,287,838	2,099,562
Total	$ 5,371,893	$ 1,930,630

Summary of Operations*

	Year Ended December 31, 1978	Year Ended December 31, 1977
Revenues	$ 5,172,922	$ 5,807,945
Net Income (Loss)	$ 90,709	$ (251,345)

Applicable to:		
Southland Financial and subsidiaries	$ (36,220)	$ (195,746)
Others	126,929	(55,599)
Total	$ 90,709	$ (251,345)

*Excludes amounts applicable to liquidated joint ventures which resulted in a net gain to the Company of $683,538 in 1978.

The excess of liabilities over assets applicable to Southland Financial and subsidiaries represents their portion of accumulated losses and distributions in excess of the related investment.

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UNITED NATIONAL CORPORATION
Consolidated Balance Sheet

	February 28, 1979	1978
Liabilities and Stockholders' Equity		
• • • •		
Total liabilities	56,024,523	62,341,956
Deferred federal income taxes	42,665	42,665
Deferred credits (Note 7)	242,448	467,159
Investment in 745 Associates (Note 11)	4,008,870	3,894,169

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Notes to Financial Statements

Note 11—Sale of 50% Leasehold Interest in 745 Fifth Avenue:

On June 30, 1977 the Company sold one half of its leasehold interest in an office building located in New York City and recorded a profit of $9.3 million. Concurrent with the sale the Company and purchaser contributed their 50% leasehold interests to a partnership entitled 745 Associates for which the Company is the managing general partner. The more significant provisions of the partnership agreement are as follows:

(a) The Company's partner will be entitled to a cumulative preferred cash return from the operation of the partnership of $400,000 on an annual basis through fiscal year 1985.

(b) Profits and losses of the partnership for accounting and tax purposes will be allocated equally, except in the event that annual cash returns are not equal in which case profits and losses will be allocated on a pro rata basis following such cash returns.

(c) The partnership term is 75 years unless otherwise terminated by sale or other disposition of the property.

Upon the formation of the partnership the Company's accounting for its one-half interest follows the equity method of accounting. Accordingly, the Company's share of the partnership's net income for the fiscal year ended February 28, 1979 was $304,800 and for the period July 1–February 28, 1978 was $135,800. The cash return for the period was equal for both partners, the preferred return having been met. The Company's investment at February 28, 1979 in the partnership was a negative $4,009,000 representing principally the Company's share of a non-recourse leasehold mortgage which is in excess of its asset carrying value in the property.

Financial data for 745 Associates at February 28, 1979 as recorded on the books of the partnership is as follows:

Condensed Statement of Financial Position (745 Associates)

	February 28, 1979	1978
Assets, principally office building at partners' cost	$16,726,000	$15,978,000
Less—Liabilities principally non-recourse mortgage	15,252,000	14,646,000
Net Assets	$ 1,474,000	$ 1,332,000
Represented by:		
United National Corporation	($ 4,009,000)	($ 3,996,000)
Partner	5,483,000	5,328,000
	$ 1,474,000	$ 1,332,000

Condensed Statement of Operations (745 Associates)

	Year ended February 28, 1979	eight month period ending February 28, 1978
Revenues	$ 5,723,000	$ 3,723,000
Expenses (including depreciation and amortization; 1979—$552,000 and 1978—$350,000)	5,113,000	3,452,000
Net income	$ 610,000	$ 271,000

The difference in the partners' recorded equities in the net assets of the partnership is due to the differing original cost basis of each partner.

DEL E. WEBB CORPORATION
Notes to Financial Statements

Note 18.
Investments in and Receivables from Fifty Percent Owned Affiliates

The Company's condensed financial information set forth below consists principally of a fifty percent interest in a partnership which owns and operates three office buildings.

Condensed Combined Balance Sheets

	1978	1977
Assets:		
Cash	$ 144,000	$ 157,000
Prepaid expenses	12,000	57,000
Notes and accounts receivable, net	125,000	133,000
Property and equipment:		
Cost	26,873,000	27,875,000
Less accumulated depreciation	8,287,000	7,842,000
	18,586,000	20,033,000
Deferred charges	610,000	600,000
Total assets	$19,477,000	$20,980,000
Liabilities:		
Accrued liabilities	$ 505,000	$ 504,000
Notes and accounts payable	17,657,000	18,911,000
Due to Del E. Webb Corporation and subsidiaries	2,190,000	3,202,000
Total liabilities	$20,352,000	$22,617,000
Equity (deficiency):		
Del E. Webb Corporation and subsidiaries	$ (537,000)	(957,000)
Others	(338,000)	(680,000)
Total deficiency	$ (875,000)	$ (1,637,000)

Condensed Combined Statements of Income and Equity

	Years Ended December 31, 1978	1977
Sales and rental income	$5,568,000	$5,678,000
Cost of sales and operating expenses	2,894,000	2,926,000
Selling, general and administrative expenses	104,000	138,000
Interest expense and other deductions, net	1,390,000	1,511,000
	4,388,000	4,575,000
Combined earnings for the year	1,180,000	1,103,000
Less earnings allocable to others	551,000	500,000
Earnings allocable to Del E. Webb Corporation and consolidated subsidiaries	629,000	603,000

Equity (deficiency) of Del E. Webb Corporation and subsidiaries:		
Balance at beginning of year	(957,000)	(954,000)
Adjustments for discontinued partnerships	90,000	(309,000)
Capital withdrawals, net	(299,000)	(297,000)
Deficiency at end of year	$ (537,000)	$ (957,000)

SALE BETWEEN VENTURER AND VENTURE

BOMAINE CORPORATION
Consolidated Balance Sheet

	December 31	
	1978	1977
Assets		
• • • •		
Real estate assets (Notes 1, 4 and 7):		
Notes receivable from land sales, partially pledged, less deferred profit of $832,000 and $1,619,000	1,639,000	3,274,000
Notes receivable purchased from land joint venture (Note 5)	2,467,000	
Land held for sale, at lower of average cost or market, partially pledged	375,000	551,000
Equity in land joint venture (Note 5)	130,000	940,000
Other	83,000	140,000
Total real estate assets	4,694,000	4,905,000
• • • •		

Notes to Financial Statements

Note 5—Equity in Land Joint Venture:

The Company's real estate subsidiary, United (Note 1), has approximately a 30% interest in a joint venture, Antelope Valley Associates (AVA), with A-S Development Inc., an American Standard Company.

United's equity in AVA is summarized as follows:

	1978	1977
Balance—beginning of year	$940,000	$1,007,000
Earnings for year	60,000	28,000
Distributions to United	(389,000)	(95,000)
Reduction in equity from purchase by United of joint venture assets (see below)	(481,000)	
Balance—end of year	$130,000	$ 940,000

Balance sheets of AVA are summarized as follows:

	December 31	
	1978	1977
Assets		
Cash	$ 48,000	$ 20,000
Notes receivable from land sales, net		3,085,000
Receivables related to unrecorded sales		871,000
Land inventory	422,000	409,000
	$470,000	$4,385,000

Liabilities		
Accrued liabilities	$ 65,000	$ 399,000
Secured land purchase contracts		287,000
	65,000	686,000
Partners' equity		
United	130,000	940,000
A-S Development Inc.	275,000	2,759,000
	$470,000	$4,385,000

In February 1979, AVA sold to United all of its December 31, 1978 receivables of $3,509,000, less related liabilities of $432,000, for $1,554,000 cash. United gave effect to the purchase of these assets as of December 31, 1978 by recording the net assets acquired at the purchase price plus an amount of $481,000 (representing reduction in United's equity in the joint venture assets acquired). United partially financed the purchase with a $1,250,000 bank loan, repayable at prime rate plus 3%; the loan is secured by the purchased receivables and payable on demand or no later than February 1980.

KAIBAB INDUSTRIES
Notes to Financial Statements

(1) Summary of Significant Accounting Policies:
Consolidation—

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The Company through its wholly owned subsidiary is a 50% general partner in Flagstaff Mall Associates; a partnership formed for the purpose of developing and operating a shopping center in Flagstaff, Arizona. The Company follows the equity method of accounting for its interest in this partnership.

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(3) Investments

The Company's equity in unconsolidated subsidiaries and a partnership are as follows:

	September 30	
	1978	1977
Mexican subsidiaries (Note 1)	$260,921	$178,752
Partnership (Note 1)	192,319	—
	$453,240	$178,752

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Under terms of the partnership agreement, the Company sold to Flagstaff Mall Associates approximately 17 acres of land for $350,000. No payment on the sale is to be received until the completion of construction, accordingly the cost of the land (selling price less deferred profit) is included as a portion of the investment balance. The land and buildings under construction are pledged as collateral on the partnership's construction loans totaling $951,322 at September 30, 1978. Kaibab's liability under these construction loans is limited to its investment in the partnership. The Company's share of the partnership losses was $8,373 in 1978.

III

CONSOLIDATION

Under the complete consolidation method of accounting for joint ventures, the complete amount of each of the assets, liabilities, revenues, and expenses of the investee is combined with each item of the corresponding elements of the investor's financial statements without distinguishing the amounts. The interest of other investors in the investee's net assets is included as a liability in the consolidated balance sheet and usually described as "minority interest." The interest of other investors in the investee's net income is included as a deduction from consolidated net income and usually described as "minority interest in net income."

Under the proportionate (pro rata) consolidation method of accounting for joint ventures, the investor's proportionate interest in each of the assets, liabilities, revenues, and expenses of the investee is combined with each item of the corresponding elements of the investor's financial statements without distinguishing the amounts. Since proportionate rather than complete amounts of assets and liabilities are combined, no minority interest applicable to the joint venture is included in the consolidated balance sheet or income statement.

Six examples are presented of the use of complete consolidation and five examples are presented of the use of proportionate consolidation to account for what appear to be joint ventures.

COMPLETE CONSOLIDATION

CONTINENTAL ILLINOIS PROPERTIES
Notes to Financial Statements

Note 4 Investments in Partnerships

The Trust owns interests in 17 partnerships which hold rental properties as long-term investments. The Trust has provided substantially all of the capital needs and generally receives the majority of income and cash available from the partnerships. In all such partnerships, the Trust's involvement is on a basis similar to its wholly-owned properties.

During the year ended October 31, 1978, the Trust invested approximately $16.1 million in partnerships which have assets and liabilities totaling approximately $95.6 million and $79.0 million, respectively. Of these amounts, the Trust invested approximately $15.5 million during the quarter ended January 31, 1978, in partnerships with assets and liabilities of approximately $92 million and $76 million, respectively. Based on the materiality of these as well as previously acquired partnership interests, the Trust has changed its accounting presentation to provide for the consolidation of all partnership properties with the Trust's wholly-owned properties. In connection with certain of these partnerships, the Trust has obtained its investment by exercising options under the terms of related agreements and as part of the consideration exchanged the current balances of related mortgage loans receivable less the balances of any permanent loans obtained.

Included in other income for the year ended October 31, 1978, is $250,000 which the Trust received in exchange for the redemption by the issuer of an option providing for the Trust to acquire a partnership interest in a parcel of land. The issuer of the option is a joint venture partner with the Trust in other properties and a borrower on a $1.3 million mortgage loan receivable.

GULFSTREAM LAND AND DEVELOPMENT CORP.
Notes to Financial Statements

1. Summary of Significant Accounting Policies

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Accounting for Joint Ventures

In two instances where the Company has a 50% interest in a joint venture and also acts as manager, the ventures are accounted for on a consolidated basis. Other joint ventures are accounted for by the equity method (see note 5).

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NATIONAL KINNEY CORP.
Notes to Financial Statements

11. Property Under Development

In December 1978, a joint venture in which a subsidiary of Kinney and a subsidiary of Eastern Savings Bank each has a 50% interest was formed for the development and construction of 498 luxury townhouse condominium units in West Orange, New Jersey, known as The Villas at Eagle Ridge Club. It is contemplated that the construction will be done in stages over a five-year period, based upon sales contracts to individual unit purchasers. Kinney has advanced approximately $400,000 to the venture; such advances are not expected to be increased. All other financing is being accomplished through land acquisition and construction mortgage loans provided by Eastern Savings Bank. Unlike other joint venture undertakings, Kinney is responsible for the construction effort and accordingly its consolidated financial statements include the accounts of this joint venture. At December 31, 1978, the joint venture had expended $5,225,000 for land and related development costs. The excess over Kinney's advance was funded through land acquisition and construction mortgage loans (see Note 13). Profits from this venture are being accounted for on the percentage-of-completion basis. However, since cost estimates for all successive stages will not be fully determined until construction has progressed through several earlier stages, no income is presently anticipated to be recognized from those earlier stages.

SAFECO CORPORATION
Notes to Financial Statements

1. Summary of Significant Accounting Policies.
Basis of Reporting

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The Corporation and its subsidiaries follow the equity method of accounting for investments in less than 50% owned companies. Certain joint ventures, the financing of which rests primarily with one of the Corporation's subsidiaries, are fully consolidated in the financial statements. Other joint ventures approximately 50% owned and involving substantial joint venture partners are consolidated to the extent of the Corporation's proportional interest in the respective joint venture assets, liabilities and income.

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SERVICO, INC.
Notes to Financial Statements

Note 1—Summary of Significant Accounting Policies

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of Servico, Inc. and its wholly-owned subsidiaries. The statements also include all joint-ventures in which Servico, Inc. owns 50% and has management control and those owned by more than 50%.

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Joint Ventures

The Company through a wholly-owned subsidiary became the general partner in a limited partnership which acquired an operating motel in May, 1975. The limited partners contributed the equity capital which was used in making the down payment and for operating capital. Of the limited partners numbering 20, two are wives of directors of the Company and four others are closely related to directors. The Company manages the property and receives 3% of gross revenues as a management fee. The Company has a 55% equity ownership and shares in gains and losses of the partnership based on a formula applied to net cash receipts after the management fee as defined in the contract.

Included in the December 31, 1978 financial statements is the consolidation of a motel operation in which the company's interest was 66½% increasing from 33% from the previous year. The consolidation of this partnership resulted in an excess of cost of investment over underlying net assets of the partnership and is reflected in "other assets" on the balance sheet. This excess is being amortized using the straight-line method over the estimated remaining useful life of the partnership's motel building, approximately 22 years.

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SHAPELL INDUSTRIES, INC.
Notes to Financial Statements

Note 3—Investment in Partnerships

During 1978 the Company's activities in certain partnerships were material in size and such partnerships were effectively controlled by the Company. Therefore, they have been consolidated in these financial statements.

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PROPORTIONATE CONSOLIDATION

MEDCOM, INC.
Notes to Financial Statements

1. Summary of Significant Accounting Policies

Consolidation: The consolidated financial statements include the accounts of Medcom, Inc. and its subsidiaries. Material intercompany items have been eliminated in consolidation. The consolidated financial statements include A-V Scientific Aids, Inc., acquired by purchase on June 1, 1978. Medcom and Tomorrow Entertainment, Inc. formed a joint venture, The Tomorrow Entertainment/Medcom Company in 1976 to develop and produce medical and health programming for broadcast on network television. Profits and losses are shared equally. In 1977, Medcom's share of the income from the joint venture was included in Other Income and net assets were included as accounts receivable in the consolidated financial statements. In 1978, due to the increased materiality of the joint venture, Medcom's pro rata share of the assets, liabilities, revenues, costs, and expenses have been included in the consolidated financial statements, and the 1977 amounts have been reclassified to conform with the 1978 presentation.

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ORANGE AND ROCKLAND UTILITIES, INC.
Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies.

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Joint Owned Utility Plant: The accompanying financial statements reflect the Company's participation in two significant joint ownership agreements. The Company has a one-third interest in the

1,200 megawatt Bowline Point generating facility which it owns jointly with Consolidated Edison Company of New York, Inc. The Company is the operator of the joint venture. Each participant is entitled to its proportionate share of the energy produced. The operation and maintenance expenses of the facility are shared proportionately based on the energy received from the plant by the partners. The other joint ownership agreement is for the construction and operation of the 1,150-megawatt Sterling Nuclear Plant scheduled for completion in the late 1980s. Partners in the project together with their respective ownership percentages are: Rochester Gas and Electric Corporation, which owns 28% and will be the plant operator, Niagara Mohawk Power Corporation, 22%, and Central Hudson Gas & Electric Corporation, 17%. The Company has a 33% interest in this venture.

Under both agreements each participant has an undivided interest in the facility and is responsible for its own financing. The Company's interest in these two jointly owned plants is as follows:

	Bowline Point		Sterling	
December 31,	1978	1977	1978	1977
	(Thousands of Dollars)			
Electric Utility Plant in Service	$87,087	$86,839	$ —	$ —
Construction Work in Progress	$ 28	$ 109	$27,684	$21,137

The Company maintains depreciation records on a composite basis for each class of property, thus it is not possible to allocate the accumulated provisions for depreciation to specific generating units whether jointly or wholly owned.

The Company's share of the operation and maintenance expenses of the Bowline Point facility included in the accompanying Consolidated Statement of Income is $39,483,000, $48,130,000, $34,000,000, $40,511,000, and $33,224,000 for the years 1978, 1977, 1976, 1975, and 1974, respectively.

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THE PARSONS CORPORATION
Notes to Financial Statements

NOTE C—Summary of Significant Accounting Policies

The separate consolidated financial statements of Parsons include the accounts of Parsons and its wholly-owned subsidiaries. Parsons' proportionate interest in the revenues and costs of 50 percent-owned unincorporated joint ventures formed to carry out specific contracts are included in the statement of income; its interest in the related assets and liabilities are likewise included in the appropriate balance sheet categories. Interest in joint ventures which are expected to be continuing and involved in an indeterminate number of contracts are carried on the equity basis. All significant intercompany accounts and transactions have been eliminated.

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THE ROUSE COMPANY
Notes to Financial Statements

(3) Joint Ventures

The condensed, combined financial statements of ventures in which the Company has joint interest and control with other venturers and the Company's proportionate share thereof are summarized as follows (in thousands):

	Combined		Proportionate Share	
	1978	1977	1978	1977
Operating properties:				
Property and deferred costs of projects	$239,704	$208,423	$ 98,608	$85,428
Less accumulated depreciation and amortization	19,831	14,285	14,568	13,000
	219,873	194,138	84,040	72,428
Construction and development in progress..................................	18,566	10,683	9,283	5,341
Other assets	15,753	12,541	7,876	6,270
Total	$254,192	$217,362	$101,199	$84,039

Debt, principally mortgages	$177,096	$141,549	$ 88,548	$70,774
Other liabilities	13,545	17,335	2,330	4,105
Partners' equity	63,551	58,478	10,321	9,160
Total	$254,192	$217,362	$101,199	$84,039
Revenues	$ 48,660	$ 39,402	$ 24,289	$19,663
Expenses exclusive of interest, depreciation and amortization	22,930	18,051	11,465	9,025
Interest expense	13,757	11,598	6,879	5,800
	36,687	29,649	18,344	14,825
	11,973	9,753	5,945	4,838
Depreciation and amortization	5,737	5,062	1,610	1,963
Net earnings	$ 6,236	$ 4,691	$ 4,335	$ 2,875

The proportionate share columns reflect the Company's share based on its cost basis which differs in certain instances from the combined basis of the related properties. Also, the proportionate share columns reflect depreciation expense and accumulated depreciation which differ from the related amounts in the combined financial statements because of the Company's use of composite depreciation rates which differ from depreciation rates used by the ventures.

SANTA FE INTERNATIONAL CORPORATION
Notes to Financial Statements

Note 1—Summary of Significant Accounting Policies

Principles of Consolidation—
The Company consolidates all domestic and foreign subsidiaries, substantially all of which are wholly owned, and its proportionate interest in the accounts of unincorporated joint ventures of a continuing nature. Investments in affiliated (20% to 50% owned) companies are accounted for on the equity method. All material intercompany accounts and transactions are eliminated.

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IV

MIXTURES OF ACCOUNTING METHODS

Some companies included in NAARS use methods of accounting for joint ventures that mix features of both the equity method and complete or proportionate consolidation, or mix proportionate and complete consolidation. The most common method involves the use of the equity method in the balance sheet—that is, inclusion in the balance sheet of the equity in net assets of the investee as a single amount and presentation of it separately or combined with other amounts—and the use of proportionate consolidation in the income statement. Other methods used include:

- Equity method in the balance sheet, complete consolidation in the income statement;
- Proportionate consolidation except that in the balance sheet venture assets are combined and presented as a single amount and venture liabilities are combined and presented as a single amount;
- Proportionate consolidation except that in the balance sheet venture plant and equipment and accumulated depreciation are combined with corresponding items for consolidated subsidiaries and the remaining net assets of the venture are presented as a single amount;
- Equity method in the balance sheet, proportionate consolidation in the income statement except that all revenues of the venture are combined and reported as a single amount and all expenses of the venture except depreciation are combined and reported as a single amount;
- Complete consolidation in the balance sheet, proportionate consolidation in the income statement;
- Proportionate consolidation except that in the balance sheet certain assets and liabilities of the venture are combined and presented as a single amount;
- Proportionate consolidation except that in the balance sheet net current assets of the venture are presented as a single amount and net noncurrent assets are presented as a single amount.

Minor variations of the equity method are illustrated in Chapter 2.

Fourteen examples are presented of the preceding methods of accounting for joint ventures. The examples are classified according to whether they illustrate the use of the equity method in the balance sheet and proportionate consolidation in the income statement or the other methods described.

EQUITY METHOD IN BALANCE SHEET, PRO-RATA CONSOLIDATION IN INCOME STATEMENT

ARUNDEL CORPORATION
Notes to Financial Statements

Note C—Advances to and Equity in Construction Joint Ventures

Assets of the construction joint ventures consist primarily of operating funds, progress payments due under contracts and construction equipment. Liabilities are primarily trade payables and notes payable guaranteed in certain instances by the Company and the other co-venturers. A condensed combined balance sheet for the joint ventures follows:

	December 31, 1978	December 31, 1977
Assets	$100,970,000	$86,309,000
Liabilities	46,167,000	46,427,000
Net Equity	$ 54,803,000	$39,882,000
Net Equity Applicable to:		
Other Co-venturers	$ 41,247,000	$29,345,000
Company	13,556,000	10,537,000
	$ 54,803,000	$39,882,000

The Company's proportionate share of joint venture revenues and costs included in the Consolidated Statements of Earnings follows:

	Years Ended December 31, 1978	1977
Contract Revenues	$23,705,000	$22,190,000
Contract Costs	22,929,000	18,560,000
Earnings Before Taxes	$ 776,000	$ 3,630,000

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CENTEX CORPORATION
Notes to Financial Statements

(A) Significant Accounting Policies

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Joint Ventures

The Company is involved in joint ventures with interests ranging from 20% to 60%. Proportionate revenues and costs and expenses, which are not significant, are included in the statement of consolidated earnings for 50% or more owned ventures. Results of operations of less than 50% owned ventures are not significant and are included in the appropriate segment of business revenues. The investment in joint ventures, except oil and gas joint ventures, is carried on the equity basis in the consolidated balance sheet. The investment in oil and gas joint ventures is carried in oil and gas properties in the consolidated balance sheet.

DEVELOPMENT CORPORATION OF AMERICA
Notes to Financial Statements

Note 8. Investments in Joint Ventures

Investments in joint ventures represent the company's interests in real estate development projects and a coal mining operation and are stated at cost plus advances and equity in undistributed earnings or losses. The company's proportionate share of sales and costs applicable to operations of real estate development joint ventures is recorded in the Consolidated Statement of Income. Included in gain on sale of operating property in 1977, as reflected in the Consolidated Statement of Income, is $1,086,569 attributable to the operations of a real estate development venture.

PRESIDENTIAL REALTY CORPORATION
Notes to Financial Statements

5. Investments

Presidential's investments in partnerships and joint ventures, each 50% owned, consist of the following at October 31:

	1978	1977
Kent Lincolnia Joint Venture	$ 568,625	$ 569,264
Hayes House Associates*	483,188	525,874
Enchanted Hills Apartments Joint Venture*	221,767	202,688
UTB Associates	19,341	—
Liberty Road Apartments Joint Venture	—	174,528
Total	$1,292,921	$1,472,354

*Property sold subsequent to October 31, 1978.

All investments are at cost plus or minus proportionate share of accumulated income (loss).

The amounts at which these investments are carried in the consolidated balance sheet at October 31, 1978 and 1977 are approximately $743,000 and $700,000 more than Presidential's share of the underlying net assets as recorded on the books of those partnerships.

Presidential's share of the operations of the partnerships, which is included in revenues from rental property, rental property expenses and rental property depreciation in the statement of consolidated operations, is as follows for the years ended October 31:

	1978	1977
Rental income	$2,056,277	$2,200,679
Rental property expenses (before depreciation)	1,629,291	1,712,015
Operating income before depreciation	426,986	488,664
Depreciation	290,717	304,286
Operating profit	$ 136,269	$ 184,378

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ROSSMOOR CORPORATION
Notes to Financial Statements

7. Investments in and Advances to Joint Ventures

Consists of investments in two ventures formed for the principal purpose of residential development. Rossmoor's interest in the operations of such ventures is 50% as to one such venture and 1.5% as to the other. Development with respect to the 50% venture was completed in 1978.

The accompanying consolidated statement of income for 1978 and 1977 includes sales and revenues of $1,895,000 in 1978 and $3,652,000 in 1977 and costs and expenses of $1,374,000 in 1978 and $3,047,000 in 1977 with respect to Rossmoor's share of the aggregate joint venture operations.

TECHNICAL OPERATIONS INCORPORATED
Notes to Financial Statements

(6) Equity in Construction Joint Ventures

The Company's interest in construction joint ventures is recorded on the equity basis with the Company recognizing its proportionate share of related revenues, costs, and expenses. Summary financial information for these joint ventures at September 30, 1978 and 1977 is as follows (in thousands):

	(Unaudited) 1978	1977
Current assets	$24,652	$24,208
Property and equipment	435	1,379
	$25,087	$25,587
Less—Liabilities and debt	(13,696)	(17,921)
Equity	$11,391	$ 7,666
Company's share of equity	$ 3,653	$ 3,258

The Company's proportionate share of the joint ventures' net revenues was $17,269,000 for 1978, and $19,528,000 for 1977.

OTHER METHODS

ARGO PETROLEUM CORPORATION
Notes to Financial Statements

1. Summary of Significant Accounting Policies and Procedures
Principles of Consolidation

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The company is the general partner for three oil and gas limited partnerships and has various joint venture interests in other exploration and production activities. The company's share of partnership and joint venture property and equipment, accounts receivable and accounts payable is included in the consolidated balance sheets under the respective captions, and its interest in the remaining net assets is included under the caption "Advances to and Other Assets of Partnerships." The company's share of the income and expenses of such partnerships and joint ventures is included under the applicable captions in the consolidated statements of operations.

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DIGICON INC.
Notes to Financial Statements

8. Ship Operations

The Company owns a 50% interest in Ocean Marine Services, Inc. ("OMS") which manages ocean-going tug/supply ships serving the offshore drilling industry. In 1975 a wholly-owned subsidiary of the Company, Digicon Marine Inc., and OMS formed a 50-50 partnership, Ocean Marine Services Partnership No. 1 (the "Partnership"), to own four tug/supply ships which OMS would manage. As a result of its ownership of Digicon Marine Inc. and 50% ownership of OMS, the Company has an effective 75% equity interest in the Partnership. The Company includes 100% of the assets and liabilities of the Partnership and 75% of the Partnership's items of income and expense in the consolidated financial statements.

The Company, through Digicon Marine Inc., has made investments in and advances to the Partnership of approximately $3,300,000 and, as part of the formation and investment agreements, is entitled to receive 99% of all investment tax credits generated by the Partnership and between 67% and 99% of all permitted Partnership cash distributions until such time as the Company has received cash distributions at least equal to its original investment. Because the Partnership is subject to certain financial restrictions imposed by U.S. Department of Commerce—Maritime Administration ("MARAD"), substantial cash distributions are not anticipated until fiscal 1980 or 1981. Neither the Company nor Digicon Marine Inc. is obligated to make further investments in the Partnership.

The Partnership's vessels are financed by 25-year bonds which have been guaranteed by MARAD. Although the bonds are a general obligation of the Partnership, repayment is not guaranteed by the Company.

The Company's investment in OMS is carried on the equity basis. At July 31, 1978 the Company's investments in OMS of $232,000 exceeded its equity in net underlying assets by $44,000, which excess is being amortized over a 40-year period.

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GREAT BASINS PETROLEUM CO.
Notes to Financial Statements

(1) Accounting Policies

Principles of Consolidation—The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries after elimination of all significant intercompany accounts.

The Company acts as general partner for numerous oil and gas limited partnerships. Accordingly, the Company's share of partnership property and equipment, deferred income and long-term debt is included in the consolidated balance sheets in their respective captions and its interest in the remaining net assets is included in the caption "Investment in residual assets of and advances to partnerships". The Company's share of income and expenses of such partnerships is included in the applicable captions in the consolidated statements of operations.

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MISSOURI PUBLIC SERVICE COMPANY

Balance Sheets

Utility Plant and Other Assets	December 31 1978	1977
Utility Plant in Service (notes 1 and 8):		
Electric	$308,954,843	$267,708,017
Gas	23,300,643	22,568,137
Water	6,958,194	6,375,704
	$339,213,680	$296,651,858
Less—Reserves for depreciation	88,038,160	81,112,692
Net utility plant in service	$251,175,520	$215,539,166
Jeffrey Energy Trust (note 8)	18,651,046	24,869,177
Construction Work in Progress	5,161,407	9,448,365
Total utility plant (net)	$274,987,973	$249,856,708

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Notes to Financial Statements

8. Jeffrey Energy Trust:

The Company completed the interim financing arrangements for its 8% undivided interest in four 680MW units at the Jeffrey Energy Center. A grantor trust (the "Trust") was created and the Company assigns all contract rights under the Agreement for Construction and Ownership to the Trust.

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During 1978 the Company concluded that under new accounting guidelines of the Securities and Exchange Commission the activity of the Trust should be combined with the financial statements of the Company. The 1977 balances have been restated to reflect this change. These changes do not affect net income or earnings per common share.

Included in the balance sheet at December 31, 1978, is the Company's 8% portion of the Jeffrey Energy Center. A summary of these amounts is below:

Utility plant in service	$24,765,072
Reserve for depreciation	397,496
Jeffrey Energy Trust	18,651,046

The Company records its 8% portion of direct expenses of the joint operations of Jeffery Energy Center in the corresponding operating expense in the Statements of Income.

L.B. NELSON CORPORATION

Consolidated Balance Sheets

	December 31, 1978	1977
Assets		
• • • •		
Share of unconsolidated partnerships' assets	6,568,000	—
• • • •		
Liabilities and Shareholders' Investment		
• • • •		
Share of unconsolidated partnerships' liabilities	2,810,000	—
• • • •		

Notes to Financial Statements

1. Significant Accounting Policies

Principles of Consolidation: The consolidated financial statements include the accounts of L.B. Nelson Corporation, its subsidiaries (all of which are wholly owned) and 50% owned partnerships which are controlled by the Company. All other investments in partnerships are accounted for using the expanded equity method (see Note 7). All significant intercompany balances and transactions are eliminated in consolidation.

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Included in the Company's consolidated statements of income is its pro-rata share of revenue and expenses from its unconsolidated partnerships. (See Note 7).

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7. Combined Condensed Financial Statements of Unconsolidated Partnerships

The Company has a 50% general partnership interest in three partnerships. These partnerships are not consolidated in the Company's financial statements. The combined condensed financial statements for the year ended December 31, 1978 are as follows:

Balance Sheet	
Assets	
Cash	$ 446,000
Notes & Accounts Receivable	9,223,000
Land and Construction in Process	3,543,000
Other Assets	4,000
	$13,216,000
Liabilities and Partners' Capital	
Accounts Payable	$ 47,000
Accrued Liabilities	1,179,000
Due to L.B. Nelson Corp.	695,000
Construction and Land Notes Payable	4,031,000
Deferred Income	363,000
Partner's Capital	
L.B. Nelson Corp.	3,410,000
Other Partners	3,491,000
	$13,216,000
Statement of Income	
Sales	$15,502,000
Costs and Expenses	8,759,000
Net Income	$ 6,743,000

Significant accounting policies of the above partnerships are the same as those of L.B. Nelson Corporation. The notes receivable (which arose from the retail sales of land) are approximately $10,400,000 at December 31, 1978. A collection reserve of approximately $550,000 has been established (5% of the face amount). The notes receivable bear an average interest rate of 9.25% and have been discounted to yield 11.0%. The notes are fully amortizing over a ten year period. Principal maturities during the next five years are: 1979, $492,000; 1980, $711,000; 1981, $780,000; 1982, $855,000; and 1983, $937,000.

TRAVELODGE INTERNATIONAL, INC.

Consolidated Balance Sheet

	October 31, 1978	October 31, 1977
Assets		
• • • •		
Investments in joint ventures, at equity	15,808,328	15,074,695
• • • •		

Consolidated Statement of Income

	Year Ended October 31, 1978	1977
Sales and revenues:		
Share of joint venture revenues	$37,861,423	$33,500,162
Motor hotel and motel revenues	31,868,641	28,486,552
Other	9,077,680	8,051,276
	78,807,744	70,037,990
Costs and expenses:		
Share of joint venture costs and expenses (exclusive of depreciation)	23,850,276	22,041,759

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Note 4—Investments in TraveLodge Joint Ventures

TraveLodge and its subsidiaries are partners with others in joint ventures owning and operating TraveLodge motels situated principally on leased land. The joint venture policy of TraveLodge has been to enter into a separate joint venture agreement for the construction and operation of each TraveLodge. Under this policy TraveLodge agreed to provide the funds, over and above the sum of the capital contribution of the joint venturer and the mortgage loan, necessary to complete the motel that was the subject of the joint venture agreement.

The condensed combined balance sheet of the joint ventures is as follows:

	September 30, 1978	September 30, 1977
	(Thousands of Dollars)	
Assets		
Current assets	$14,517	$11,282
Property and equipment	58,304	53,629
Other assets	448	338
Total	$73,269	$65,249
Liabilities and Equity		
Current liabilities	$ 7,925	$ 6,713
Long-term debt	9,558	10,946
Joint venturers' equity		
TraveLodge	17,004	15,633
Others	38,782	31,957
Total	$73,269	$65,249

The difference between TraveLodge's investment account and its equity shown above results from cash distributions made by the joint ventures in the month of October.

The condensed combined income statement for the joint ventures is as follows:

	Year Ended September 30, 1978		Year Ended September 30, 1977	
	(Thousands of Dollars)			
	Total	TraveLodge's Share	Total	TraveLodge's Share
Room rentals and other income	$75,577	$37,861	$66,669	$33,500
Costs and expenses (exclusive of depreciation)	47,317	23,850	43,708	22,042
Income before depreciation	$28,260	14,011	$22,961	11,458
TraveLodge's share of depreciation		2,607		2,569
TraveLodge's share of net income		$11,404		$ 8,889

The joint ventures' property and equipment is stated at the individual joint venturers' combined cost; depreciation has been provided based on such cost. As to many of the ventures, the original joint venturer has sold his interest to a subsequent joint venturer. The acquisition cost of the subsequent joint venture interest is allocated to property and equipment and is generally greater than the original cost of the respective assets. TraveLodge's share of property and equipment in the various joint ventures is stated at cost less accumulated depreciation. In some instances, the individual joint venture property and equipment has been pledged as security for long-term debt.

U.N.A. CORPORATION

Summary of Accounting Policies

Industry Information and Principles of Consolidation

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The consolidated statements include the accounts of the company and all of its majority-owned subsidiaries. All significant intercompany balances and transactions have been eliminated. The consolidated statement of income includes the accounts of U.N. Alloy Steel Sales, Inc., a 50% owned joint venture with a major supplier, and its wholly-owned subsidiary (see Note 1).

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Notes to Financial Statements

1. Joint Venture

The terms of a joint venture agreement, which expires in 1980, with mutual options for extension through 1986, require the company to provide selling, warehousing and administrative services, and require the co-venturer to provide merchandise and financing. Joint venture sales included in the consolidated statement of income were $12,339,399 and $9,795,103 for the years ended July 31, 1978 and 1977, respectively. Included in accounts receivable are amounts due from the joint venture of $290,000 and $109,000 at July 31, 1978 and 1977, respectively. Also included in accounts receivable are amounts due from the co-venturer of $1,792,000 and $1,187,000 at July 31, 1978 and 1977, respectively. The company's equity in the joint venture is included in other assets in the consolidated balance sheet (approximately $50,000 and $35,000 at July 31, 1978 and 1977, respectively).

A summary of the consolidated financial position of U.N. Alloy Steel Sales, Inc. and subsidiary is as follows:

	July 31, 1978	July 31, 1977
Cash	$ 152,722	$ 139,260
Accounts receivable, less allowance for possible losses of $34,344 and $30,496	2,268,394	1,249,101
Total current assets	2,421,116	1,388,361
Payable to parent companies	2,309,886	1,316,884
Accruals, primarily income taxes	10,967	1,100
Total current liabilities	2,320,853	1,317,984
Stockholders' equity (net assets)	$ 100,263	$ 70,377

THE WESTERN COMPANY OF NORTH AMERICA
Consolidated Balance Sheet
(In Thousands)

	December 31, 1978	December 31, 1977 (Restated)
Assets		
Current assets:—		
• • • •		
Equity in net current assets of 50% owned affiliate	1,779	2,847
• • • •		
Total current assets	73,262	59,162
• • • •		
Investments and other assets:		
Equity in net non-current assets of 50% owned affiliate	22,363	23,626
• • • •		

Notes to Financial Statements

Note 3—Investment in 50% Owned Affiliate

A wholly-owned subsidiary of the Company is a member of a limited partnership with a major oil company, the purpose of which is the operation of a semi-submersible drilling vessel under a drilling contract having a primary term of six years. The subsidiary serves as the general partner of this partnership. The Company's investment represents an undivided 50% interest in the partnership.

The following is a condensed balance sheet of the Company's 50% share of the partnership's assets and liabilities:

	December 31, 1978	December 31, 1977
	(In Thousands)	
Current assets	$ 2,303	$ 3,272
Less current liabilities	(524)	(425)
Equity in net current assets	1,779	2,847
Property and equipment	25,154	24,999
Less accumulated depreciation	(2,791)	(1,373)
Equity in net non-current assets	22,363	23,626
Partnership equity	$24,142	$26,473

The Company's 50% share of revenues and expenses is reflected in the individual income and expense captions in the accompanying consolidated statement of income as follows:

	1978	1977
	(In Thousands)	
Revenues	$8,375	$8,455
Costs and expenses:		
Cost of services and operating expenses	2,905	2,825
Depreciation and amortization	1,430	1,332
Interest income	(82)	(46)
	4,253	4,111
Income before taxes	$4,122	$4,344

The Company is compensated by the partnership for management and other services. The 50% of this compensation paid by the Company, $365,000 in 1978 and 1977, has been eliminated in consolidation and in the above summary.

APPENDIX A

Excerpts from OPINION NO. 18 OF ACCOUNTING PRINCIPLES BOARD THE EQUITY METHOD OF ACCOUNTING FOR INVESTMENTS IN COMMON STOCK MARCH 1971

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3. Several terms are used in this Opinion as indicated:

a. "Investor" refers to a business entity that holds an investment in voting stock of another company.

b. "Investee" refers to a corporation that issued voting stock held by an investor.

c. "Subsidiary" refers to a corporation which is controlled, directly or indirectly, by another corporation. The usual condition for control is ownership of a majority (over 50%) of the outstanding voting stock. The power to control may also exist with a lesser percentage of ownership, for example, by contract, lease, agreement with other stockholders or by court decree.

d. "Corporate joint venture" refers to a corporation owned and operated by a small group of businesses (the "joint venturers") as a separate and specific business or project for the mutual benefit of the members of the group. A government may also be a member of the group. The purpose of a corporate joint venture frequently is to share risks and rewards in developing a new market, product or technology; to combine complementary technological knowledge; or to pool resources in developing production or other facilities. A corporate joint venture also usually provides an arrangement under which each joint venturer may participate, directly or indirectly, in the overall management of the joint venture. Joint venturers thus have an interest or relationship other than as passive investors. An entity which is a subsidiary of one of the "joint venturers" is not a corporate joint venture. The ownership of a corporate joint venture seldom changes, and its stock is usually not traded publicly. A minority public ownership, however, does not preclude a corporation from being a corporate joint venture.

e. "Dividends" refers to dividends paid or payable in cash, other assets, or another class of stock and does not include stock dividends or stock splits.

f. "Earnings or losses of an investee" and "financial position of an investee" refer to net income (or net loss) and financial position of an investee determined in accordance with accounting principles generally accepted in the United States.

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6. A summary of the two principal methods of accounting for the investments in common stock discussed in this Opinion follows:

a. *The cost method.* An investor records an investment in the stock of an investee at cost, and recognizes as income dividends received that are distributed from net accumulated earnings of the investee since the date of acquisition by the investor. The net accumulated earnings of an investee subsequent to the date of investment are recognized by the investor only to the extent distributed by the investee as dividends. Dividends received in excess of earnings subsequent to the date of investment are considered a return of investment and are recorded as reductions of cost of the investment. A series of operating losses of an investee or other factors may indicate that a decrease in value of the investment has occurred which is other than temporary and should accordingly be recognized.

b. *The equity method.* An investor initially records an investment in the stock of an investee at cost, and adjusts the carrying amount of the investment to recognize the investor's share of the earnings or losses of the investee after the date of acquisition. The amount of the adjustment is included in the determination of net income by the investor, and such amount reflects adjustments similar to those made in preparing consolidated statements including adjustments to eliminate intercompany gains and losses, and to amortize, if appropriate, any difference between investor cost and underlying equity in net assets of the investee at the date of investment. The investment of an investor is also adjusted to reflect the investor's share of changes in the investee's capital. Dividends received from an investee reduce the carrying amount of the investment. A series of operating losses of an investee or other factors may indicate that a decrease in value of the investment has occurred which is other than temporary and which should be recognized even though the decrease in value is in excess of what would otherwise be recognized by application of the equity method.

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10. Under the equity method, an investor recognizes its share of the earnings or losses of an investee in the periods for which they are reported by the investee in its financial statements rather than in the period in which an investee declares a dividend. An investor adjusts the carrying amount of an investment for its share of the earnings or losses of the investee subsequent to the date of investment and reports the recognized earnings or losses in income. Dividends received from an investee reduce the carrying amount of the investment. Thus, the equity method is an appropriate means of recognizing increases or decreases measured by generally accepted accounting principles in the economic resources underlying the investments. Furthermore, the equity method of accounting more closely meets the objectives of accrual accounting than does the cost method since the investor recognizes its share of the earnings and losses of the investee in the periods in which they are reflected in the accounts of the investee.

11. Under the equity method, an investment in common stock is generally shown in the balance sheet of an investor as a single amount. Likewise, an investor's share of earnings or losses from its investment is ordinarily shown in its income statement as a single amount.

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16. The Board concludes that the equity method best enables investors in corporate joint ventures to reflect the underlying nature of their investment in those ventures. Therefore, investors should account for investments in common stock of corporate joint ventures by the equity method, both in consolidated financial statements and in parent-company financial statements prepared for issuance to stockholders as the financial statements of the primary reporting entity.[6]

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[6]The equity method should not be applied to the investments described in this paragraph insofar as the limitations on the use of the equity method outlined in footnote 4 would be applicable to investments other than those in subsidiaries.

APPENDIX B

Excerpts from STATEMENT OF POSITION 78-9 ACCOUNTING FOR INVESTMENTS IN REAL ESTATE VENTURES DECEMBER 29, 1978

THE APPLICABILITY OF THE EQUITY METHOD OF ACCOUNTING

Corporate Joint Ventures

4. APB Opinion 18 requires investments in corporate joint ventures to be accounted for by the equity method and includes guidance for applying that method in the financial statements of the investor. That opinion applies to corporate joint ventures created to own or operate real estate projects.

5. Paragraph 3 of APB Opinion 18 states that "an entity which is a subsidiary of one of the 'joint venturers' is not a corporate joint venture." A subsidiary, according to that opinion, refers to

> . . . a corporation which is controlled, directly or indirectly, by another corporation. The usual condition for control is ownership of a majority (over 50 percent) of the outstanding voting stock. The power to control may also exist with a lesser percentage of ownership, for example, by contract, lease, agreement with other stockholders, or by court decree.

Accordingly, an investment in a corporate subsidiary that is a real estate venture should be accounted for by the investor-parent using the principles applicable to investments in subsidiaries rather than those applicable to investments in corporate joint ventures. Minority shareholders in such a real estate venture should account for their investment using the principles applicable to investments in common stock set forth in APB Opinion 18 or in FASB Statement no. 12.

General Partnerships

6. The staff of the American Institute of Certified Public Accountants issued an interpretation of APB Opinion 18 in November, 1971, which concludes that many of the provisions of APB Opinion 18 are appropriate in accounting for investments in certain unincorporated entities. The division believes that the principal difference, aside from income tax considerations, between corporate joint ventures and general partnerships is that the individual investors in general partnerships usually assume joint and several liability. The division believes, however, that the equity method enables noncontrolling investors in general partnerships to reflect the underlying nature of their investments in those ventures as well as it does for investors in corporate joint ventures. Accordingly, the division believes that investments in noncontrolled real estate general partnerships should be accounted for and reported under the equity method. This recommendation requires the one-line equity method of presentation in both the balance sheet and the statement of income.[1] Paragraph 19 of APB Opinion 18 should be used as a guide in applying the equity method. Investors in general partnerships should provide for income taxes on the profits accrued on their investment in the partnership regardless of the tax basis used in the partnership return.

[1]Pro rata consolidation is not appropriate except in the limited circumstances described in paragraph 11.

The tax liabilities applicable to partnership interests relate directly to the partners, and the accounting for income taxes generally contemplated by APB Opinion 11 is appropriate. Thus, the differences, if any, between income or loss recorded by a partner under the equity method and the partner's share of distributable taxable income or loss from the partnership should be accounted for as timing differences unless they result from tax-exempt revenues or other permanent differences.

7. The division believes a general partnership that is controlled, directly or indirectly, by an investor is, in substance, a subsidiary of the investor. APB Opinion 18 states that the usual condition for control of a corporation is ownership of a majority (over 50 percent) of the outstanding voting stock. However, if partnership voting interests are not clearly indicated, a condition that would usually indicate control is ownership of a majority (over 50 percent) of the financial interests in profits or losses (see paragraph 25). The power to control may also exist with a lesser percentage of ownership, for example, by contract, lease, agreement with other partners, or by court decree. On the other hand, majority ownership may not constitute control if major decisions such as the acquisition, sale, or refinancing of principal partnership assets must be approved by one or more of the other partners. The division believes that a controlling investor should account for its investment under the principles of accounting applicable to investments in subsidiaries. Accordingly, intercompany profits and losses on assets remaining within the group should be eliminated. A noncontrolling investor in a general partnership should account for its investment by the equity method and should be guided by the provisions of paragraph 19 of APB Opinion 18.

Limited Partnerships

8. The division believes that the accounting recommendations for use of the equity method of accounting for investments in general partnerships are generally appropriate for accounting by limited partners for their investments in limited partnerships. A limited partner's interest may be so minor that the limited partner may have virtually no influence over partnership operating and financial policies. Such a limited partner is, in substance, in the same position with respect to the investment as an investor that owns a minor common stock interest in a corporation, and, accordingly, accounting for the investment using the cost method may be appropriate. Under the cost method, income recognized by the investor is limited to distributions received, except that distributions that exceed the investor's share of earnings after the date of the investment are applied to reduce the carrying value of the investment. Also, differences between income or losses recognized for financial reporting purposes and the investor's share of taxable income or losses should be accounted for as timing differences unless they result from tax-exempt revenues or other permanent differences.

9. The rights and obligations of the general partners in a limited partnership are different from those of the limited partners. Some believe that general partners should be deemed to have the controlling interest in a limited partnership. However, if limited partners have important rights, such as the right to replace the general partner or partners, approve the sale or refinancing of principal assets, or approve the acquisition of principal partnership assets, the partnership may not be under the control, directly or indirectly, of the general partnership interests. The division believes that the general partners are in control and should account for their investments in accordance with the recommendations in paragraph 7 only if the substance of the partnership or other agreements provides for control by the general partners.

10. The division believes that if the substance of the partnership arrangement is such that the general partners are not in control of the major operating and financial policies of the partnership, a limited partner may be in control. An example could be a limited partner holding over 50 percent of the total partnership interest. A controlling limited partner should be guided in accounting for its investment by the principles for investments in subsidiaries. Noncontrolling

limited partners should account for their investments by the equity method and should be guided by the provisions of paragraph 19 of APB Opinion 18, as discussed in paragraphs 6 and 7, or by the cost method, as discussed in paragraph 8, as appropriate.

Undivided Interests

11. In an interpretation of APB Opinion 18 issued by the staff of the American Institute of Certified Public Accountants in November, 1971, the staff concluded that most of the provisions of paragraph 19 of APB Opinion 18 generally would be appropriate in accounting for partnerships and unincorporated ventures, but that if

> . . . the investor-venturer owns an undivided interest in each asset and is proportionately (i.e., severally) liable for its share of each liability, the provisions of the equity method set forth in paragraph 19 (c) of the Opinion may not apply in some industries. For example, where it is the established industry practice . . . , the investor-venturer may account in its financial statements for its *pro rata* share of the assets, liabilities, revenues, and expenses of the venture.

If real property owned by undivided interests is subject to joint control by the owners, the division believes that investor-venturers should not present their investments by accounting for their pro rata share of the assets, liabilities, revenues, and expenses of the ventures. Such property is subject to joint control if decisions regarding the financing, development, sale, or operations require the approval of two or more of the owners. Most real estate ventures with ownership in the form of undivided interests are subject to some level of joint control. Accordingly, the division believes that such investments should be presented in the same manner as investments in noncontrolled partnerships. If, however, the approval of two or more of the owners is not required for decisions regarding the financing, development, sale, or operations of real estate owned and each investor is entitled to only its pro rata share of income, is responsible to pay only its pro rata share of expenses, and is severally liable only for indebtedness it incurs in connection with its interest in the property, the investment may be presented by recording the undivided interest in the assets, liabilities, revenue, and expenses of the venture.

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